Audit Committee – Supplementary agenda

A meeting of the Audit Committee will be held on:

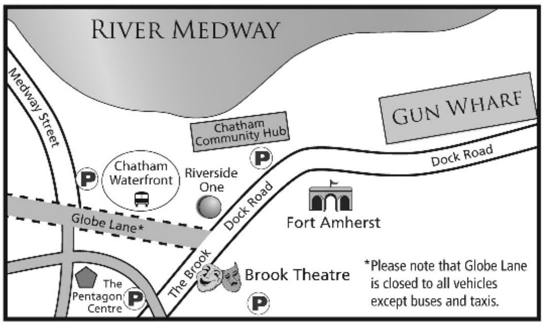
Date:	24 November 2011
Time:	7.00pm
Venue:	Meeting Room 2 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

Items

5.	**Annual Audit Letter 2010/2011** This report presents the work carried out by PKF, the Council's external auditor, in respect of the 2010/2011 financial year.	**(Pages 1 - 20)**
6.	**2010/2011 External Audit Report** This report considers the issues raised by the Council's external auditors following the 2010/2011 audit.	**(Pages 21 - 176)**

For further information please contact Anthony Law, Democratic Services Officer on Telephone: 01634 332008 or Email: democratic.services@medway.gov.uk

Date: 18 November 2011



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AUDIT COMMITTEE

24 NOVEMBER 2011

ANNUAL AUDIT LETTER 2010/2011

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

Summary

This report and attachment presents the work carried out by PKF, our external auditors in respect of the 2010/2011 financial year.

1. Budget and Policy Framework

1.1 The receipt of the Annual Audit and Inspection Letter is a matter for the Audit Committee.

1.2 This report needs to be considered as a matter of urgency. The Audit Commission's Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to each audited body. The Letter summarises the key issues arising from the work undertaken during the year and it is important that Members are advised of these at the earliest opportunity. It is also important that this report is considered alongside the external auditor's report on the 2010/2011 Statement of Accounts and Annual Governance Report, which is also being considered at this meeting.

2. Background

2.1 Independent external auditors are responsible for preparing an annual audit letter for all councils. This letter covers predominantly the financial year 2010/2011, but some references are made to progress beyond year-end to give a more up to date picture given the time lag between end of the financial year and the publication of this letter.

2.2 The letter summarises the key issues arising from the work PKF have carried out during the year and relates to their responsibilities in both Finance and Governance matters.

2.3 The annual audit letter for 2010/2011, produced by PKF, is attached as Appendix 1 to this report.

3. Key Findings

3.1 PKF are expected to issue an unqualified opinion on the 2010/2011 Statement of Accounts this month. The accounts, which are presented to this Audit Committee, have been subject to significant adjustments, predominantly to properly represent the requirements of IFRS. The amended accounts have no material effect on the overall surplus for 2010/2011 or the General Fund balance.

3.2 PKF have also issued an unqualified value for money conclusion and are satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

3.3 The letter also comments that the Council has responded effectively to the reduction in the budget from Central Government, through sound financial planning.

3.4 The key findings from PKF's work are explained in more detail in the attached appendix.

4. Financial and Legal Implications

4.1 There are no legal and financial implications arising from this report.

5. Risk Management

5.1 As the majority of the letter relates to activities of the Council during 2010/2011 no risks are identified. However, value for money is one of the two core values for the Council and, in an ever more demanding financial environment, is of prime importance in ensuring that service delivery remains as effective as the letter portrays.

6. Recommendation

6.1 The Audit Committee note the content of the annual audit letter for 2010/2011.

Background papers
The annual audit letter 2010/2011 (attached as Appendix 1)

Lead Officer Contact:
Mick Hayward: Chief Finance Officer

Accountants &
business advisers

Medway Council

Annual Audit Letter 2010/11

Report to Members

November 2011

Contents

Appendix

http://www.pkf.co.uk

1 Executive summary

1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have completed over the past 12 months. We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report.

1.2 The Council is implementing the recommendations made following our audit of the 2010/11 financial statements. We have no additional recommendations at this time. The key issues arising from our work are summarised below.

Audit of 2010/11 financial statements

1.3 Local Authorities prepared financial statements, and restated prior year accounts, in accordance with International Financial Reporting Standards (IFRSs) for the first time in 2010/11. However, the overall quality of the draft financial statements presented to us, and reviewed by the Audit Committee in July 2011, was lower compared to previous years. The Council did not achieve the deadline specified in the 2011 Accounts and Audit Regulations to publish the statements by 30 September 2011. Our audit opinion is due to be given before 30 November 2011.

1.4 Our audit work found the fixed asset register had not been fully maintained in the year. As a consequence, the Council could not produce materially correct disclosures for any of its non-current assets. In particular, the Council's accounting for schools; investment properties; properties held for sale; surplus assets; asset revaluation and depreciation did not fully follow the IFRS Code of Practice. The position also affected the classification and valuation of the Council's finance and operating leases, where the requirements of relevant accounting standards had not been fully met.

1.5 The Council completed a significant amount of work to update the fixed asset register to produce balances as at 1 April 2009; 31 March 2010 and 31 March 2011. Our audit work also found other material and non-material errors in the accounts which represented a deterioration in performance compared to previous years.

1.6 The Council commenced a review in July 2011 to ensure there is an adequately resourced, experienced and skilled Finance Department to produce financial statements more effectively. The Audit Committee should receive a report on progress by the end of March 2012.

Financial Resilience

1.7 The Council managed its overall financial position well in the year. Clear direction continues to be shown on financial matters through the work of the Cabinet and the Senior Management Team. The Council responded effectively to the new coalition Government's Emergency budget, which removed resources of £6.1 million from the Council's budgets. The scenario planning undertaken by the Council in the lead up to the Government's 2010 Comprehensive Spending Review was effective and means the reduction in expenditure required over the period to 2013 is in line with the Council's projections.

1.8 The Council has identified risks to achieving the 2011/12 budget and significant work remains in progress to fully balance the medium term financial position. As at the end of September 2011, the Council has identified the risk departmental budgets may overspend by £5 million. Management action has been taken to review all expenditure items to ensure agreed budgets are met.

1.9 The medium term financial plan for the next three years identified a budget gap of £11.4 million and assumes efficiency savings of £5.2 million are realised from the 'Better for Less' transformation programme. The Council's reserves are considered to be adequate by the Chief Financial Officer as at 31 March 2011, though he also concludes there is little scope for reducing reserves over the medium term. The Council is therefore dealing with a difficult financial situation and the outlook remains challenging.

Economy, Efficiency and Effectiveness

1.10 The Council has a good track record of securing value for money and managing its finances effectively. Securing value for money across all services is a 'core value' of the Council which is consistently understood throughout the organisation, and evidenced through the performance management framework. We have previously reported strengths in the Council's arrangements, including the effectiveness of the 'Star Chamber' approach to support the annual budget and service planning process.

1.11 The Council has continued to develop the value for money approach over the last 12 months. In 2010/11, the Council's performance management system ('Covalent') became fully operational, bringing further detail and transparency to the Council's performance reporting and enabling the timely publication of progress towards priorities and targets.

1.12 The Council made progress with its business transformation plans (known as the 'Better for Less Programme') over the last 12 months. The Programme is being developed and implemented with the assistance of external consultants. It aims to re-engineer the Council's business processes to improve customer and service users' experiences and outcomes.

Progress towards priorities

1.13 The Council kept its corporate objectives under review throughout the year based on changing priorities and available resources. The Council Plan for the period 2010 to 2013 was refreshed in the year with a revised Plan focussing on a smaller number of objectives published in February 2011. The Council reported its performance towards its six priorities using 56 different performance indicators in 2010/11. The quarterly performance reports are comprehensive and enable the Cabinet and the Council's Scrutiny Committees to review and challenge reported outcomes. As at 31 March 2011, the Council reported that 39 indicators (70 per cent) were on, or very close to, the target level. A total of 17 indicators (30 per cent) were behind target and management action was taken to address the situation. In summary:

- through the work of the Medway Community Partnership, targets for tackling anti-social behaviour; reducing the fear of crime and reducing repeat offences involving violent crime were met or surpassed
- all targets for ensuring a 'clean and green' environment were met. The amount of household waste reduced; and recycling levels increased ahead of target in the year
- the performance of Medway's children in achieving GCSE results (based on 2011 provisional results) improved and is the best reported to date
- the performance of Children's Social Care services towards some of the Council's targets was affected by the significant increase in the number of referrals leading to an assessment of needs in the year
- the Council's performance towards its targets for 'Older and vulnerable people maintaining their independence' was mixed in the year, with five of the 12 targets not met. The Council has worked hard to implement the Government's plans for self directed support and direct payments, with over 1,800 people (more than double the previous year and including all new assessments) successfully managing their own budgets as at 31 March 2011. However, performance remains behind the national target
- the Council's target to achieve 9.2 million bus and rail journeys originating in the area was not met, and performance deteriorated by 700,000 journeys compared to 2009/10 because of the continuing difficult economic conditions and adverse winter weather.

- performance in reducing the number of delayed discharges continues to improve and no delayed discharges from hospitals were attributable to the Council in the quarter ending 31 March 2011.

Financial and Economic outlook

1.14 The Council published a revised medium term financial plan for the period 2011/12 to 2014/15, highlighting its expenditure plans and resources for the period. The plan identifies further, significant savings are necessary from the ‘Better for Less’ programme customer contact and administration projects. The Council is working to eliminate identified budget gaps in each of the next three years while maintaining general reserves and balances at the level reported as at 31 March 2011 (£17 million). The total budget gap identified amounts to £11.4 million.

1.15 However, significant risks have been highlighted by the Council which may affect achievement of its financial objectives. In particular, all of the savings anticipated from the ‘Better for Less’ projects will need be achieved as planned in the year. The Council has identified the value of savings expected from such measures, as stated in the medium term financial strategy.

1.16 The Council has invested resources to reduce the impact of the economic downturn in the area. It is working with partners such as the local Chamber of Commerce, Medway’s Universities and further education establishments; the Medway Local Strategic Partnership and the Kent Forum accordingly. The Council recognises achievement of its targets to raise the level of skills among local people and to create and safeguard employment opportunities will be extremely challenging.

Other Emerging Issues

1.17 The Council continues to respond to the extensive consultation published and changes in legislation determined by the coalition Government. Over the last 12 months, the Council has taken action to respond to the Localism Bill; Welfare Reform, and the Health and Social Care Bill.

Acknowledgement

1.18 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

About the Council

2.1 The Council employs about 7,000 people and spends about £800 million annually on services such as education; children's and adult social care; community services; waste management and street cleansing; planning and economic development; environmental health and benefit payments. About £10 million of the total budget is spent on managing and maintaining the Council's stock of dwellings. Some £80 million was spent on capital projects in the year with further programmes amounting to £107 million planned between 2011/12 and 2013/14. Budgets managed directly by schools amounted to £195.7 million in 2010/11.

2.2 The Council delivers a wide range of local services to more than 250,000 residents in the North Kent area (Chatham, Gillingham, Rainham, Rochester and Strood). There are many stakeholders in Medway, including local businesses, Charity and Voluntary Organisations and importantly, local communities themselves. The Council's provision of services is overseen by 55 Councillors elected from 22 Wards in the area.

2.3 The Council has set an ambitious vision for Medway to be a city 'Rich in Heritage with a Great Future'. The Council's core values put the customer at the centre of everything it does and it aims to give value for money.

2.4 Further information on the activities of the Council is detailed in its annual report, which is publicly available on the Council's website at www.medway.gov.uk

The purpose of this Letter

2.5 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the auditors and the Council

2.6 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

2.7 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

2.8 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Key findings

Financial statements

3.1 We are due to issue our opinion on the Council's accounts before 30 November 2011. The Council did not achieve the Government's deadline for publishing audited accounts by 30 September 2011. The Council commenced a review in September 2011 to ensure there is an adequately resourced, experienced and skilled Finance Department to produce financial statements more effectively.

3.2 Our opinion is due to confirm the accounts gave a true and fair view of Council's financial affairs as at 31 March 2011 and of its income and expenditure for the year. We were satisfied the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the accounts.

Preparation of Financial Statements and Implementation of International Financial Reporting Standards

3.3 Local Authorities prepared financial statements, and restated prior year accounts, in accordance with International Financial Reporting Standards (IFRSs) for the first time in 2010/11. We have previously concluded the Council's preparations for the implementation of IFRS met the expectations of the Audit Commission's national guidance. In the event, the overall quality of the draft financial statements presented to us, and reviewed by the Audit Committee in July 2011, was lower compared to previous years. The situation arose because the Council's arrangements for preparing the financial statements were inadequate. In particular, insufficient capacity was available to the Finance team to produce accounts which fully complied with accounting standards and other professional guidance.

Internal Controls

3.4 Working with Internal Audit, we noted some deficiencies in internal controls and where the control environment could be strengthened. As required by auditing standards, we wrote to the Audit Committee highlighting such weaknesses and the additional audit procedures necessary to gain assurance over certain balances. We recommended that:

- a fully operational fixed asset register is maintained to underpin the preparation of the annual financial statements. Further training should be provided to officers accordingly
- controls over the 'Care Director' social care system should be strengthened
- controls over the preparation and authorisation of journals should be consistently applied
- controls over requests for, and subsequent authorisation of, sundry debtor accounts should be implemented in accordance with financial operating procedures.

3.5 The additional work we completed confirmed the balances produced by the above systems were materially correct.

Use of resources

3.6 The Code requires us to be satisfied proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the 'value for money conclusion' and draws on the results of specific risk based audit work.

3.7 The focus of our work in 2010/11 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources. Our financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control. Our review of economy, efficiency and effectiveness considered the Council's arrangements for prioritising resources and improving efficiency and productivity. We also reviewed the extent of the Council's resilience to fraud.

Financial Resilience

3.8 The Council has a successful track record of managing its finances in accordance with its published plans. It has increasingly planned its finances over the longer term, working towards a sustainable medium term financial plan. Clear leadership continues to be shown on financial planning matters through the work of the Cabinet and the Senior Management Team. Firstly to respond to the Government's Emergency Budget (in June 2010) and then to prepare for the anticipated reductions in resources arising from the (Government's) 2010 Comprehensive Spending Review (CSR).

3.9 The 2010/11 budget was balanced after identifying savings of £18.3 million and planning to use reserves totalling £4.9 million (£4 million from general reserves and £983,000 being the expected surplus on the Collection Fund). The total net revenue budget amounted to £396 million and the Council performed well to reduce its expenditure to £3.2 million less than the budgeted amount. The surplus on the collection fund was however less than anticipated (at £386,000). The Council therefore reduced the general reserve by £1.8 million as at 31 March 2011.

3.10 In the lead up to the 2010 CSR, officers modelled various scenarios for Members to consider involving reductions in available general fund and direct schools grant of 15 per cent; 20 per cent and 25 per cent. The Government's formula grant settlement for the 2011/12 and 2012/13 financial years reduced Medway's entitlement by a total of £19.5 million (from £86 million to £78.1 million – over 20 per cent). The majority of the reduction (£11.7 million) affected the 2011/12 settlement. A further reduction in other resources (such as Area Based Grant) and adjustments to the 2010/11 settlement made in the Emergency budget brought the total reduction in Government funding to £23.5 million for the 2011/12 year.

3.11 The Council consulted widely on its future financial plans to ensure the overall financial position, and impact on future expenditure plans, was understood within the organisation and among partners. The effective scenario planning means the reduction in expenditure and efficiency savings required over the period to 2013 are in line with its projections.

3.12 The Council has identified risks to achieving the 2011/12 budget and significant work remains in progress to balance the medium term financial position. As at the end of September 2011, the Council has identified the risk departmental budgets may overspend by £5 million. Management action has been taken to review all expenditure items to ensure agreed budgets are met.

3.13 The medium term financial plan for the next three years identified a budget gap of £11,4 million and assumes efficiency savings of £5.2 million are achieved. The Council's reserves are considered to be adequate by the Chief Financial Officer as at 31 March 2011, though he also concludes there is little scope for reducing reserves further over the medium term. The Council is therefore dealing with a difficult financial situation and the outlook remains challenging.

Economy, Efficiency and Effectiveness

3.14 The Council has a good track record of securing value for money and managing its finances effectively. Securing value for money across all services is a 'core value' of the Council which is consistently understood throughout the organisation, and evidenced through the performance management framework. We have previously reported strengths in the Council's arrangements, including the effectiveness of the 'Star Chamber' approach to support the annual budget and service planning process.

3.15 The Council has continued to develop the value for money approach over the last 12 months. In 2010/11, the Council's performance management system ('Covalent') became fully operational, bringing further transparency to the Council's performance reporting and enabling the timely and detailed reporting of progress towards priorities and targets.

3.16 The Council made progress with its efficiency and savings plans (known as the 'Better for Less Programme') over the last 12 months. The Programme is being developed and implemented with the assistance of external consultants. It is anticipated the Better for Less

Programme will secure further efficiencies and improved value for money as frontline services become more streamlined; customer focused and as new ways of working are established.

3.17 The Council has taken the necessary action to conclude the major procurement of its waste treatment (collection and disposal); street cleansing and recycling contracts. While some delays occurred in finalising the procurement, the integrated contract became fully operational on 1 December 2010. The external contractor is due to construct a new waste transfer station and has introduced changes designed to increase the level of recycling (for instance enabling residents to recycle paper and card separately from other materials). The Council expects significant savings to be secured over the life of the contract and reported improved performance towards its targets for reducing waste and increasing recycling as at 31 March 2011. In addition, the Council reported 74 per cent of residents were satisfied with the waste recycling service.

3.18 The Better for Less Programme prioritised the customer contact and administration services for review based on analysis of costs and performance. The Council is working to establish a more centralised customer service arrangement with a single point of entry for service users. Extensive consultation continues with staff and Trade Union groups to ensure the project proceeds on time and on budget.

3.19 The Council decided to maintain its investment in Children's Services and Adult Social Care services in the year, based on its review of priorities and the improvement necessary in the performance of those services. There have been some positive outcomes, with the best GCSE results reported to date (based on provisional results in 2011) and the achievement of targets for reducing delays in discharging patients requiring social care from hospital. The number of adults managing their own social care budgets increased by 100 per cent (to 1,800 people) following the additional resources invested the year. A significant increase in referrals of children for an assessment of their social care needs means certain targets were not met and the Council is continuing to examine options for improving the service. Targets to improve the educational achievement of looked after children were not met in the year. However, the Council's performance did improve compared to previous years. The Council is continuing to examine ways of improving performance towards its targets for looked after children.

3.20 The Council continues to use information about costs and benchmarking to support the decision making process. For example, the Council understands those services where costs are higher than other Councils and where performance appears to be out of line with the level of investment made (such as the revenues and benefits service). The Council has used this information to inform the development and implementation of the 'Better for Less Programme'.

Fraud Resilience

3.21 Fraud is a problem which undermines the stability and financial health of organisations from every economic sector. In the public sector, it can deny local people the quality of public services which taxpayers pay for, undermine job security and cause additional costs for consumers of public services. It is therefore a problem which is important and needs to be addressed.

3.22 Over the last fifteen years there has been a change in how fraud is addressed. This change has seen organisations move from focussing on individual fraudsters and merely reacting to what they do, with investigations which lead to potential sanctions and the recovery of losses, to treating fraud as a business cost like any other and seeking to pre-empt and reduce it.

3.23 We reviewed Medway's resilience to fraud and found the Council collects some qualitative information about the nature of the fraud problems and associated risks it faces. Individual managers recognise that fraud is an issue and had thought about how it might impact in their own services. However, information about fraud risk is not consistently collated across

Medway's operations, though high-profile individual cases of fraud are communicated appropriately. The Council's commitment to addressing the problem of fraud is clear but it is difficult to see how this can be achieved without comprehensive information about the nature and scale of fraud. We therefore recommended the Council should take steps to:

- establish a more strategic approach to tackling fraud
- establish an accurate measurement of the nature and scale of fraud
- create a central counter fraud resource and function
- prepare a clear programme of work to develop a stronger anti-fraud culture and stronger deterrent effect
- develop key performance indicators for Council-wide fraud.

Audit of grant claims and other Government returns

3.24 In April 2011 we reported the Council's arrangements for preparing grant claims and other returns to Government departments were variable. We made a number of recommendations to assist officers involved in the claims preparation process and to reduce the overall fee for the audit. While none of the claims audited as at 31 October 2011 have been qualified, most claims we reviewed required amendment because balances did not fully reconcile with underlying accounting records. We will provide an update to the Audit Committee about the outcome of our audit of 2010/11 claims in February 2012.

4 Progress towards priorities

4.1 The Council kept its corporate objectives under review throughout the year based on changing priorities and available resources. The Council Plan for the period 2010 to 2013 was refreshed in the year with a revised Plan focussing on a smaller number of objectives published in February 2011. The Council reported its performance towards its six priorities using 56 different performance indicators in 2010/11. The quarterly performance reports are comprehensive and enable the Cabinet and the Council's Scrutiny Committees to review and challenge reported outcomes.

4.2 As at 31 March 2011, the Council reported that 39 indicators (70 per cent) were on, or very close to, the target level. A total of 17 indicators (30 per cent) were behind target and management action was taken to address the situation, as summarised below.

4.3 All targets for ensuring a 'clean and green' environment were met. Notably, performance towards the Council's targets for reducing waste produced and increasing recycling were surpassed. However, the Council's own CO^2 emissions increased by 14 per cent between 2008/09 and 2009/10. It is now taking action, through a number of projects which commenced in 2011 based on analysis of data, to reduce the use of energy and water in its buildings and other premises (such as leisure centres).

4.4 Most targets for ensuring 'safer communities' were achieved through the work of the Medway Community Partnership. In particular, targets for tackling anti-social behaviour; reducing the fear of crime and reducing repeat offences involving violent crime were met or performance surpassed expectations. The Partnership reported a range of positive outcomes towards priorities identified by local people in its annual report, including reductions in non-domestic burglaries (13.2 per cent); violence against the person (6.5 per cent); theft of motor vehicles (3.4 per cent); serious anti-social behaviour (13.4 per cent) and the number of young offenders aged 10 to 19 years (13.6 per cent). Further work is underway with the local 'Connexions' service to improve the effectiveness of drug treatment services in the area, recognising some people seeking such support and advice have complex needs.

4.5 'Children and young people having the best start in life' remains a Council priority, with progress measured towards a range of national and local performance indicators. Provisional results at the end of October 2011 indicate the performance of Medway's children in achieving GCSE results improved and is the best reported to date, as shown below.

Performance	2009/10 Actual	2010/11 Provisional
Percentage of children achieving five or more GCSEs including English and Mathematics Grade A* to C	53.5%	55.6%
Percentage of children achieving five or more GCSEs Grade A* to C	76.5%	82.5%

4.6 Performance towards the Early Years Foundation Stage also improved across the four measures published by the Government for Communication and Language; and Social and Emotional Development. Progress towards the Department for Education's 'Key Stages' (Standard Attainment Tests for reading; writing and mathematics) was mixed, with some outcomes generally in line with target at Key Stage 1 (children aged seven years) and Key Stage 3 (Teacher Assessments for English, mathematics and science at secondary school) but with significant areas for improvement at Key Stage 2 (final year of primary school).

4.7 A Government inspection of the Children's Social Care service in February 2011 identified strengths across the Council's arrangements and some areas for further development (such as ensuring the quality and timeliness of assessments).

4.8 Performance towards the Council's targets was mixed in the year, mainly due to the increase in referrals to the Children's social care service (over 12 per cent increase to 3,700 referrals in the year) and the increase in referrals leading to an assessment of needs (to 68 per cent compared to the target level of 55 per cent), as shown below.

Indicator	2009/10 Actual	2010/11 Target	2010/11 Actual
Percentage of child protection cases which were reviewed within required timescales	95.5%	100%	92.4%
Percentage of core assessments for children's social care that were carried out within 35 working days of their commencement	68.3%	80%	74.1%
Percentage of children becoming the subject of Child Protection Plan for a second or subsequent time	17.6%	12%	14.5%
Looked after children cases which were reviewed within required timescales	92.1%	95%	82.3%

4.9 The Council performed well to increase the number of adoptions made within 12 months (87 per cent compared to the target of 70 per cent) and in maintaining Looked after Children in the same placement for more than two years (80 per cent compared to the target of 73 per cent).

4.10 The Council's performance towards its targets to promote 'Older and vulnerable people maintaining their independence' and 'healthy lifestyles' was mixed in the year, with five of the 12 targets not met. The Council has worked hard to implement the Government's plans for self directed support and direct payments. There have been some positive outcomes, with over 1,800 people (more than double the previous year and including all new assessments) successfully managing their own budgets as at 31 March 2011. The national target to achieve 30 per cent was not met, though the Council did ensure 23 per cent of eligible people were in control of their own budgets and increased the number of direct payments made. To further improve performance towards the government's target, the Council is investing in new systems and additional capacity for the service. The following table highlights other areas where the Council's targets were not met in the year.

Indicator	2009/10 Actual	2010/11 Target	2010/11 Actual
Percentage of social care assessments made from first contact to completion of assessment within four weeks	85%	94%	71.6%
Carers receiving needs assessment review, advice and information or a specific service	8.1%	15%	9.8%
Percentage of vulnerable people who are supported to maintain independent living	94.7%	97%	94.9%

4.11 The Council is continuing to work closely, through the Medway 'Whole Systems Board', with local commissioners and providers of healthcare services as the Governments reforms of the NHS are implemented. Performance in reducing the number of delayed discharges continues to improve and no delayed discharges from hospitals were attributable to the Council in the quarter ending 31 March 2011. The number of adults in settled accommodation as at 31 March 2011 amounted to 590 people. However, the Council's target that 74 per cent of such adults should receive secondary mental health services was not met (only 62.4 per cent of such adults received such services).

4.12 'People travelling easily and safely in Medway' is a Council priority containing many challenging targets. While the Council invests significant amounts in improving Transport infrastructure each year, the resultant improved performance is often secured only in the longer term (for instance the local transport plan agreed by the Council in March 2011 covers the next 15 years). As at 31 March 2011, the Council reported:

- targets for the completion of major infrastructure projects to improve public transport and the maintenance of non-principal roads were adversely affected by the adverse winter weather and delays attributable to projects
- the target to achieve 9.2 million bus and rail journeys originating in the area was not met, and performance deteriorated by 700,000 journeys compared to 2009/10 because of the continuing difficult economic conditions and adverse winter weather.

4.13 Progress towards the Council's priority for ensuring 'Everyone benefits from the area's regeneration' was generally positive in the year, with major projects progressing and additional investment made to minimise the impact of the economic downturn on local people. The Council also exceeded its targets for bringing empty houses back into use (135 properties compared to the target of 100) and completed 95 per cent of homelessness assessments within 28 days (compared to the target of 90 per cent). While the average time to re-let council dwellings improved towards the end of the year, overall performance (33 days) was behind the Council's target of 25 days. Positively, the Council established 1,150 new affordable homes in the year which significantly surpassed the target of 617 homes.

Performance as at 30 September 2011

4.14 The abolition of the Government's national indicator set and the refocusing of the Council's priorities provided an opportunity for Medway to review the range of indicators used to manage its performance. From April 2011, the Council has reduced the number of published indicators from 56 to 47 indicators. The Council has also merged two priority areas into a single priority for 'A safe, clean and green Medway'.

4.15 At the end of September 2011, eleven indicators (27 per cent) are outside the Council's acceptable variance. Some indicators in the Council's priority areas for vulnerable children and young people, and older people remain behind target, as shown below.

Indicator	31 March 2011	2011/12 Target	30 September
Adults with learning difficulties in employment	2.7%	5%	1.1%
Carers receiving needs assessment review, advice and information or a specific service	9.8%	20%	6.5%
Social Care clients receiving self directed support in the period	22.9%	50%	23.6%
Care Leavers in Education, Employment or Training	51.6%	60%	25%
Looked after Children participating in their reviews	N/A	95%	79%
Looked after children cases which were reviewed within required timescales	82.3%	95%	85.3%
Percentage of initial assessments for children's social care carried out within 10 days of referral	77.9%	78%	73.6%
Employment that has lasted more than 26 weeks	N/A	50 people	8 people
New registrations by local people accessing employment support services	498 people	600 people	134 people
Number of jobs taken up in the period (Flexible New Deal)	N/A	150	34
Satisfaction levels with community safety teams	N/A	70%	61%

5 Emerging issues

Financial outlook

5.1 The Council published a revised medium term financial plan for the period 2011/12 to 2014/15, highlighting its expenditure plans and resources for the period. It is working to eliminate identified budget gaps in each of the next three years while maintaining general reserves and balances at the level reported as at 31 March 2011 (£17 million). The total budget gap identified amounts to £11.4 million. The position is summarised in the following table.

	2012/13 £m	2013/14 £m	2014/15 £m	Total
Medium Term Financial Plan highlights quantifies the financial impact of the:				
• Growth in demand for services	6.0	1.4	2.7	£10.1m
• (Additional)/Reduced General Fund Resources	3.5	(1.0)	(1.2)	£1.3m
Budget Gap identified	**9.5**	**0.4**	**1.5**	**£11.4m**

5.2 However, significant risks have been highlighted by the Council which may affect the achievement of its financial objectives. In particular, the savings identified from the customer service transformation programme will need be achieved.

Economic outlook

5.3 As highlighted above, the Council has invested resources to reduce the impact of the economic downturn in the area. It is working with partners such as the local Chamber of Commerce, Medway's Universities and further education establishments; the Medway Local Strategic Partnership and the Kent Forum accordingly. As at 31 March 2011 the Council reported:

- a reduction in overall unemployment of 11 per cent and of youth unemployment of 16 per cent in the area compared to 2010 levels
- the award of 45 local business start up grants towards the target of 75 such grants by March 2012
- an increase in the number of interest free loans (12 awarded amounting to £139,000) which assisted in safeguarding jobs
- employing 170 people at Medway Council and a further 116 people in the local voluntary sector using the Future Jobs Fund
- enabling 654 people to access local employers, with 123 people subsequently employed using the Flexible New Deal programme.

5.4 In 2011/12, the Council placed renewed emphasis on its objective for ensuring local people have the skills they need to take up job opportunities. Resources secured through the Government's 'Welfare to Work' programme are enabling the Council and its partners to target unemployed people for intensive support. The programme is expected to be delivered over the next five years. The Council recognises achievement of its targets to raise the level of skills among local people and to create and safeguard employment opportunities will be extremely challenging.

Localism Bill

5.5 The Localism Bill was considered by Parliament on 13 December 2010. Subject to consultation and amendment, it is expected to receive royal assent by 30 November 2011. The Bill contains important developments for the public sector and local authorities in particular. The Council has considered the impact of the Bill on its future financing and operations and on local communities. In particular, the Bill provides for:

- the introduction of a general power of competence for Councils coupled with more freedom to adopt alternative governance structures
- more flexibility and discretion over the award of business rate relief
- the abolition of the Housing Revenue Account (HRA) and its replacement with a 'self-financing' HRA by April 2012
- changes to the planning system following the abolition of Regional Spatial Strategies.

5.6 Medway has assigned responsibility for reviewing the impact of the Localism Bill on its operations to individual Cabinet Members and the Senior Management Team. The Standards Committee has received an update about the proposals to allow local authorities to adopt their own provisions to regulate members' conduct.

5.7 The Bill could have a significant impact on the way the Council sets and then collects rental income for its dwellings and for the future investment in housing development. The Housing Revenue Account business plan has been updated for the 2011/12 year accordingly and in anticipation of further, substantial guidance being circulated by the Government.

Health and Social Care Bill

5.8 The Health and Social Care Bill (2010/11) is due to be enacted in 2012 though the outcome of the House of Lords review of the draft Bill is awaited. The Bill proposes major structural change for the commissioning and provision of healthcare including an increase in the responsibilities of GPs to commission services for their patients and the management of budgets by local GP consortia. An independent NHS Board is proposed to allocate resources and provide commissioning guidance to GP Consortia and the Council working with its partners towards the early implementers of a 'shadow' health and wellbeing board for the area. The new arrangements build on the Council's successful track record of working in partnership with commissioners and providers of healthcare services. The shadow board was established in September 2011 and includes purchasers of healthcare services from across the NHS, public health, social care and children's services. Medway is represented by four Councillors working alongside health and social care professionals to plan services for the area.

Welfare Reform

5.9 In November 2010, the Government published a White Paper known as '*Universal Credit: Welfare that works'*. The proposals aim to simplify the benefits system, including entitlement to Housing Benefit. A further document was published in August 2011, entitled '*Localising support for council tax in England'*. Council Tax benefit is not expected to be included in the Universal Credit. The Government's proposals are likely to have important implications for local authorities with responsibilities for administering benefits. For instance, Housing Benefit is expected to be included in a 'Universal Credit' following a relatively short implementation period. It is not yet clear how claimants requiring assistance in preparing applications will be dealt with locally. The Council is considering the impact of the Government's proposals on the future provision of benefit services and recognises the timetable for full implementation is challenging.

5.10 The framework for awarding council tax benefit is also expected to change, with more flexibility provided to local authorities to design a local scheme of benefit and entitlements while protecting vulnerable and older people. Further details about the scheme design, its funding arrangements and the timetable for implementation are awaited.

Core Strategy

5.11 Medway published the second draft of its Core Strategy in August 2011 setting out the Council's vision to develop the area over the period to 2028. When consultation is complete, the core strategy will be submitted to the Government for review (by March 2012). The strategy will guide all major development decisions and investment plans for the Council. An independent Planning Inspector is due to be appointed by the Government in July 2012 to hear the views of local people and to conclude whether the strategy is soundly based. The Council has highlighted the significant additional work which may arise in the event the strategy is not approved by the Inspector by the due date of 31 October 2012.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit plan	December 2010
ISA265 report to Audit Committee	June 2011
Fraud resilience report	May 2011
Annual governance report (and addendum)	September 2011

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Agenda Item 6.

AUDIT COMMITTEE

24 NOVEMBER 2011

2010/2011 EXTERNAL AUDIT REPORT

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

Summary

This report considers the issues raised by the Council's external auditors following the 2010/2011 audit of the Statement of Accounts.

The Accounts and Audit Regulations 2003 require that Committee consider these issues prior to 30 September, the reasons for the lateness of this report are fully explained within the main body of the report.

1. Budget and Policy Framework

1.1 The Audit Commission's Code of Audit Practice and International Standard of Auditing (ISA 260) requires the results of the audit to be reported to those charged with governance. This Committee has been delegated with the responsibility for considering these reports and agreeing the Council's response. In addition, the Committee, on behalf of the Council, must explain reasons for not adjusting the Statement of Accounts for the issues raised within the auditor's report, albeit in this instance there are no such unadjusted issues.

1.2 This report needs to be considered as a matter of urgency. The Accounts and Audit Regulations 2003 (as amended) require that the Committee consider a report on the outcome of the external audit by 30 September. As this has not been possible it is critical that the external auditor's report on the 2010/2011 Statement of Accounts and Annual Governance Report is presented to Members at the earliest opportunity.

2. Background

2.1 The draft Statement of Accounts for 2010/2011 were considered and approved by this Committee on 5 July. At that stage the accounts were subject to final verification and Members were advised that any proposed changes as a result of the audit would be reported at a later stage.

2.2 At the July meeting Members requested a briefing note providing clarification on:

i) the provisions relating to the clawback of school reserves, particularly where the school is becoming an academy

ii) the resurfacing work and improved security to the car park listed as for 'Woodlands Place'

iii) the number, both historic and current, of loans to employees for the purchase of motor vehicles along with details of the eligibility criteria..

A briefing paper was distributed to Members on 23 August.

2.3 The Accounts and Audit Regulations 2003 require that the Committee consider the issues raised by the Council's external auditors following the 2010/2011 audit prior to 30 September. Clearly this was not achieved and this report, together with the detail in the auditor's Governance Report attached at Appendix 1, will address the reasons for the failure to meet that deadline.

2.4 PKF began their audit mid July and it rapidly became apparent that the accounts presented to Committee were not of a robust standard. However it was not until PKF began to look closely at the accounts that it became apparent that the IFRS adjustments for 2008/09, 2009/10 and 2010/11 had not been properly performed, in spite of a series of optimistic progress reports to Audit Committee and a satisfactory progress review by PKF in January. Work then began in earnest to redeem the situation but the scale of the task rapidly escalated and despite a lot of hard work it was apparent that we would not achieve the publication date of 30 September. In addition PKF were becoming concerned at the extent to which their team were becoming involved in the effort to achieve an acceptable set of accounts. In mid-September it was determined that the publication date could not be satisfactorily met and PKF withdrew the team to enable us to work untroubled by auditors so as to achieve a revised set of accounts by the end of October. A team of 3 officers has been working solely on this project since mid September and the revised Statement of Accounts are now attached as Appendix 2. Medway is one of a number of Councils that have failed to publish (circa 10%) and this reflects the difficulties Local Authorities have had in accommodating IFRS requirements. As an important aside none of the work performed by PKF has suggested any material change to either the outturn position or the general reserve balance reported to Members in the accounts presented to Cabinet and Audit Committee at the beginning of July.

3. Auditors Report 2010/2011

3.1 The Auditor's Annual Governance Report is attached at Appendix 1 and contains:

- His report on the Financial Statements and key financial systems;
- His report on the Value for Money conclusion; and
- Associated appendices.

3.2 The Council's response to the issues identified, as proposed by officers, is included at Appendix A to the Annual Governance Report (Appendix 1).

4. Financial Statements

4.1 The executive summary of the Annual Governance Report states that, subject to satisfactory conclusion of outstanding work, an **unqualified** audit opinion will be issued in relation to the financial statements. The main issues arising from the audit are summarised in paragraph 4.2 below.

4.2 Accounting practices and financial reporting

4.2.1 Material Errors Since approval of the draft accounts the following material errors have been corrected within the financial statements:

4.2.1.1 HRA – the value of Council dwellings had being incorrectly calculated in the 2009/10, this was amended within the 2010/11 Comprehensive Income and Expenditure statement (CI&E) that were presented to this committee in July. However, this correction should have been carried out as a prior year adjustment. The correcting of this is to move the £38.4m between the two years. Other HRA amendments resulted in presentational changes to the Comprehensive Income and Expenditure Statement within 20010/11.

4.2.1.2 Property Plant and Equipment (PPE) – a considerable amount of work has been undertaken on this area. Difficulties in obtaining supporting information from the asset register and confirming previous transactions led to a decision to entirely rework this area.

4.2.2 Non-Trivial errors The Annual Governance Report sets out details of all non-trivial errors within the body of the report. All of the non-trivial errors have been recognised within the Statement of Accounts.

4.3 Accounting and internal control systems

4.3.1 The Auditor wrote to Members of this committee on 27 July 2011 highlighting deficiencies in Internal controls. This is summarised below management responses are detailed within Appendix A of the Annual Governance Report.

- A fully operational fixed asset register is maintained to underpin the preparation of the annual financial statements. Further training should be provided to officers accordingly. Management response: A review will be under
- Controls over the 'Care Director' social care system should be strengthened. Management Report:
- Controls over the preparation and authorisation of journals should be consistently applied
- Controls over requests for, and subsequent authorisation of, sundry debtor accounts should be implemented in accordance with financial operating procedures.

4.6 Annual Governance Statement

4.6.1 The auditors have reviewed the Annual Governance Statement and are satisfied that it is not inconsistent with other information that they are aware of.

4.7 International Financial Reporting Standards

4.7.1 As previously reported to this committee International Financial Reporting Standards (IFRS) require, amongst other things, the restatement of the 2009/2010 Statement of Accounts. Initial review of progress on this was favourable but the final statements presented to the Committee on 5 July were not complete in this regard.

5. Value for Money

5.1 Auditors are required to review the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based upon the following two Audit Commission criteria:

- The organisation has proper arrangements in place for securing financial resilience;
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

5.2 PKF will be issuing an unqualified value for money conclusion

6 Accounting Policies

6.1 A number of the accounting policies were not compliant with IFRS. The opportunity has now been taken to carry out a complete review of the policies and update as appropriate.

7. Management Representations Letter

7.1 To comply with regulations, the Chief Financial Officer of each local authority must provide the external auditors with a signed declaration which supports their work in relation to the audit of the annual accounts.

7.2 The draft Management Representations Letter is attached at Appendix C of the PKF report and the Committee is required to consider the content of the letter in the context of the issues raised in this report. Once agreed, the letter will be submitted to PKF.

8 Audit Fees

8.1 Due to the additional work that PKF have had to undertake this year there is an estimated increase in fee costs of some £50,000 however this has been partially mitigated by a reduction of £30,000 in fees for the audit of Housing and Council tax benefits claims. The additional cost can be accommodated within the budget held by the Chief Finance officer.

9. Financial and Legal Implications

7.1 The financial implications are contained within the body of the report.

7.2 Auditors are required to comply with the Statement of Auditing Standards, and thus provide an opinion on the Council's Statement of Accounts.

8. Audit Completion

8.1 Minor work to verify the changes to the accounts outlined in Section 4 is ongoing. However, PKF have indicated that the audit certificate will be given by 24 November.

9. Risk Management

9.1 There remains a low risk that the Auditor may find further material errors or misstatements in the accounts as a result of the changes highlighted in Section 4 of this report and which may not be identified prior to the adoption by this committee. Due regard has been had to the regulations and accounting requirements in producing the statements and the position put before the Audit Committee is the officers' interpretation of these requirements.

10. Recommendations

10.1 That Committee notes the issues raised and judgements made by the Auditor as presented in Appendix 1, and agrees the proposed response as set out at Appendix A to the Annual Governance report.

10.2 That Committee agrees the revised Statement of Accounts as set out in Appendix 2, including the amended Accounting Policies set out within that document.

10.3 That Committee agree the Management Representations Letter, attached at Appendix C of the Annual Governance report.

Background papers

Medway Council's draft statement of accounts for 2010/2011
Report on Draft Statement of Accounts to this Committee 06 July 2011
Copies of these documents are available from the Lead Officer Contact

Lead Officer Contact:
Mick Hayward: Chief Finance Officer
T: 01634 332220
E: mick.hayward@medway.gov.uk

Accountants &
business advisers

Medway Council

Annual Governance Report

Audit of financial statements for the year ended 31 March 2011

November 2011

PKF

Accountants &
business advisers

This document is prepared solely for the use and benefit of Medway Council. Neither the authors nor PKF (UK) LLP accept or assume any responsibility or duty of care to any third party.

Farringdon Place 20 Farringdon Road London EC1M 3AP

Tel 020 7065 0000 Fax 020 7065 0650 www.pkf.co.uk

Contents

1 Executive summary

1.1 This report sets out our findings from the audit of Medway Council ('the Council') for the year ended 31 March 2011 and contains important recommendations for Members' attention. Auditing standards and the *Code of Audit Practice* require that we report to those responsible for financial governance and financial reporting (those charged with governance) the key findings of our audit of the accounts and use of resources prior to issuing our opinion on the financial statements and value for money conclusion.

Significant matters for the attention of Those Charged With Governance

1.2 The annual governance report highlights significant matters for the attention of the Audit Committee ('those charged with governance' at Medway). In particular, we highlight action the Council needs to take to strengthen arrangements for preparing and publishing its annual financial statements to more fully comply with accounting standards and other statutory guidance. We also highlight the difficulties encountered in progressing our audit work which means the Council has incurred additional costs in the year, as summarised below.

1.3 Officers have highlighted to us the significant impact on resources available to the Finance Department as a result of staff changes in the year. Resources have been further affected by the additional work required to respond to the new, and wider, requirements of International Financial Reporting Standards (IFRSs). The capacity of the Finance Department was therefore seriously, adversely affected in preparing the 2010/11 financial statements and supporting working papers.

1.4 The draft financial statements presented to audit on 29 June 2011 were incomplete, included transposition and typographical errors; contained inconsistencies and 'balancing items' between primary statements and supporting notes; and did not fully follow the requirements of accounting standards or the IFRS Code of Practice published by CIPFA. The overall quality of the draft accounts was lower compared to previous years.

1.5 We updated management with our initial conclusions about the quality of the financial statements to enable the Finance Department to address the obvious shortcomings we identified in the accounts. The Audit Committee therefore reviewed amended statements on 5 July 2011. When our detailed audit work commenced, as planned on 11 July 2011, we quickly concluded the accounts contained material errors and inconsistences and not all working papers supported the balances subject to audit. Our work progressed only with substantial, direct input from Finance Officers. Most seriously, officers could not produce auditable records to support balances reported for Property, Plant and Equipment amounts (31 March 2011 and prior years). Our audit identified over 60 errors and inconsistencies in the amounts and disclosures reported in the accounts, including six material errors.

1.6 As our audit progressed, we discussed matters arising with management on a weekly basis. Management acknowledges a thorough review of the financial statements and supporting working papers should have been completed before the statements were presented to audit. It is also accepted (by management) that the Council's closedown processes did not permit sufficient time to complete such work in the lead up to the 30 June deadline for the Chief Finance Officer's certification.

1.7 To address the situation, the Council has commenced a review to ensure there is an adequately resourced, experienced and skilled Finance Department to produce financial statements compliant with professional and statutory guidance and supported by comprehensive closing files and working papers. The Audit Committee should receive a report in due course that sufficient capacity is available to produce the 2011/12 financial statements to a high standard and that a detailed plan is drawn up to support delivery.

1.8 We estimate the additional costs involved in completing our audit work amount to about £50,000. We are discussing this matter further with officers. The majority of additional costs arise as a result of the unplanned work completed by senior members of the audit team. The

Audit Committee will receive an update on such discussions at its meeting on 24 November 2011.

1.9 Our aim remains to complete our work and finalise our audit opinion before 30 November 2011, some two months after the Government's deadline of 30 September.

1.10 An action plan containing our recommendations for improvement is provided at Appendix A. A summary of our findings and conclusions is shown below.

Financial statements

1.11 The Council's arrangements for managing the transition to financial reporting under International Financial Reporting Standards (IFRSs) should be reviewed and then strengthened to produce financial statements compliant with accounting standards and other published guidance in accordance with the Government's timetable.

Material errors

1.12 We identified the following material errors which management corrected.

- the value of Council Dwellings on the balance sheet was overstated by £38.4 million because the Council wrongly calculated the value of its housing stock after applying the Government's market value adjustment factor. Because the error was made in previous years, a prior period adjustment has been made and the Council's net assets have been reduced by £38.4 million. There is no effect on the net cost of services reported as at 31 March 2011
- a number of errors were made in consolidating the cost of Housing Revenue Account services into the Comprehensive Income and Expenditure Statement (CIES). The overall effect of the amendments made (including the PPA of £38.4 million above) reduces the net cost of services by £40 million.

1.13 As highlighted above, the Council acknowledged the balances contained in the draft accounts for Property, Plant and Equipment, and the associated notes and disclosures, were materially incorrect. The scope and extent of errors is wide and we have not attempted to fully explain the differences between the draft accounts presented to the Audit Committee and the audited accounts. Appendix B shows the value of amendments made to PPE balances between the draft accounts reviewed by the Audit Committee on 5 July 2011 and the audited accounts.

1.14 The overall effect of the adjustments made to Property Plant and Equipment balances is the amount disclosed:

- as at 1 April 2010 reduced by £51.7 million (from £961.6 million to £909.8 million)
- as at 31 March 2011 reduced by £13.8 million (from £888.3 million to £874.5 million).

1.15 The Capital Adjustment Account was amended as at 1 April 2010 (reduced by £41.7 million) and as at 31 March 2011 (reduced by £11.8 million).

Non-Trivial errors

Accounting for Government Grant income and expenditure (Revenue)

1.16 Income due from revenue government grants was not consistently included in the CIES. In addition, grant amounts received but not yet spent in the year were incorrectly classified as a creditor balance. The errors affected the overall surplus reported by the Council because income was understated and the net cost of services overstated as at 31 March 2011. In summary:

- income was understated by £2.6 million
- earmarked reserves were understated and current liabilities overstated by £7.1 million

1.17 The position also affect the restated 2009/10 accounts in that:

- income was understated by £1.7 million
- earmarked reserves were understated and current liabilities overstated by £4.5 million.

1.18 The overall impact of these amendments is to increase income by £2.6 million for 2010/11 and £1.7 million in 2009/10 (the restated accounts).

Accounting for Government Grants (Capital)

1.19 We found three errors involving the disclosure of Government Grants for capital purposes Firstly, the Council accrued income of about £2.8 million for capital grants received in previous years but not yet spent. The amount was included as a receipt in advance within the sundry creditors balance. The amount should have been included in the capital grants unapplied account (useable reserve). The overall effect of the amendment reduces creditors by £2.8 million and increases useable reserves by £2.8 million.

1.20 A second error was made because the Council excluded capital grants received in the year from the CIES. The amount involved was £447,000 and the accounts have been amended to include the amount within the net cost of services income lines. The amendment reduces the net cost of services.

1.21 The third error occurred because capital grants amounting to £189,000 were incorrectly disclosed as income due from Developers under Section 106 arrangements. The amount should have been classified as a capital grant and transferred to the Capital Grants Unapplied account. The Council amended the accounts, reducing income from Developers and increasing the balance on the Capital Grants Unapplied Account.

Duplicate Journal

1.22 Our audit testing of Government Grant income and expenditure also identified a journal amounting to £18,552 had been posted twice in error. Further testing in this area found additional errors which (including the £18,552) amounted to £177,000. Income and expenditure arising from Government Grants was therefore overstated and management amended the accounts. There is no impact on the Council's net expenditure.

Disclosure errors

1.23 Our audit work identified the following errors and inconsistencies in disclosure which the Council amended:

- an error in classifying income meant other Housing Services (income) was overstated and Cultural, Environment, regulatory and planning services (income) was understated by £235,000

- an error in classifying cash and debtor amounts meant the cash and cash equivalents balance was overstated and Trade Receivables (debtors) balance understated by £861,000
- an error in classifying a provision as a credit amount in the Trade Receivables balance meant the Provisions balance was understated and sundry debtors overstated by £260,000
- further disclosure about the level of Housing Benefit overpayments outstanding (£3.6 million) and income recovered in the year (£719,000) has been provided (along with comparative information as at 31 March 2010)
- the Collection Fund account was amended as follows:
  - the amount collectable in the year increased from £82.6 million to £88.7 million
  - Transitional and Other Reliefs increased from £11.1 million to £17.2 million
  - Income Collectable from business ratepayers was reduced by £1.6 million
  - the Provision for Bad and Doubtful Debts was reduced by £1.6 million.

1.24 The Council also amended the notes to the Collection Fund account to provide additional information about the deficit incurred in the year.

Classification of Trade Receivables

1.25 The IFRS Code of Practice specifies that trade receivables should be classified as NHS debtors, government debtors, local authority debtors and sundry debtors. Our testing identified the Council had not classified £1.78 million of debtor balances correctly. Amendments were made to reallocate this amount across all types of debtor and there is no impact on the Council's net current assets.

Reallocation of service cost centres

1.26 The Council did not allocate service cost centres across service expenditure lines in full compliance with BVACOP for the restated 2009/10 CIES balances. Some income had been incorrectly included in the non distributed costs line of the CIES for 2009/10 rather than allocated directly to services. The overall amount involved is £1 million. The Council revised the accounts and there is no impact on the net cost of services.

1.27 We have also suggested a number of changes to disclosures and to aspects of presentation in the financial statements. Management is currently processing all of these amendments.

Internal controls

1.28 We wrote to Audit Committee Members on 27 July 2011 highlighting the weaknesses in controls operating over certain financial systems. Based on our work with Internal Audit, we highlighted the additional audit procedures necessary to gain assurance over certain balances and recommended that:

- a fully operational fixed asset register is maintained to underpin the preparation of the annual financial statements. Further training should be provided to officers accordingly
- controls over the 'Care Director' social care system should be strengthened
- controls over the preparation and authorisation of journals should be consistently applied
- controls over requests for, and subsequent authorisation of, sundry debtor accounts should be implemented in accordance with financial operating procedures.

Annual Governance Statement

1.29 We are satisfied the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.

Value for Money conclusion (use of resources)

1.30 We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

1.31 This is based upon the following two Audit Commission criteria:

- the organisation has proper arrangements in place for securing financial resilience
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

1.32 We will be issuing an unqualified value for money conclusion.

Closure of audit and next steps

1.33 While our audit is substantially complete, a small amount of work remains in progress to review the final amendments agreed with officers affecting the Property, Plant and Equipment amounts disclosed in the notes to the accounts. We are also undertaking final audit procedures on the revised accounts to ensure consistency between the primary statements and disclosure notes.

1.34 Subject to the satisfactory clearance of outstanding matters we intend to issue an unqualified opinion on the Council's financial statements for the year ending 31 March 2011.

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2 Introduction

2.1 This report sets out our findings from the audit of Medway Council ('the Council') for the year ended 31 March 2011. Our report is presented to the Council in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, which requires us to report key findings from the audit to those charged with governance, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, and the Audit Commission's *Code of Audit Practice*.

2.2 These ISAs (ISA 260 and ISA 265) require that we report to those responsible for financial governance and financial reporting (those charged with governance) the key findings of our audit of the financial statements (the Council's 'statements of accounts') and use of resources prior to issuing our opinion on the financial statements and value for money conclusion.

2.3 The contents of this report have been discussed and agreed with the Chief Finance Officer and we have reported to management other non-significant findings from our audit. Recommendations in response to the key findings identified by our audit are provided in the action plan at appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.

2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have restated deficiencies in internal controls previously reported by Internal Audit where we consider these to be significant.

Fee outturn

2.5 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our 2010/11 Audit Plan issued in March 2011. The accounts submitted for audit contained material errors, a significant number of non-material errors, incorrect and inconsistent disclosures and missing or incomplete information.

2.6 As a consequence, the audit has taken considerably longer than planned. We are therefore discussing with management that an additional fee we estimate at about £50,000 should be payable. We will continue to review this amount in light of the further work required to complete the financial statements audit in November 2011. The following table compares the planned fee to the estimated actual fee.

Audit plan 2010/11	Planned Fee £	Actual Fee £
Financial statements	239,000	239,000
Financial statements proposed additional fee (estimated)	-	50,000
2009/10 Use of Resources work 2010/11 Value for money conclusion	110,000	110,000
Subtotal audit	**349,000**	**399,000**
Audit of grant claims and other Government returns (estimate November 2011) (1)	82,000	52,000
Total (estimate)	**£431,000**	**£451,000**
Audit Commission Rebate(2)	**£(34,200)**	**£(34,200)**
Non-Audit Services (review of procurement) (3)	**0**	**£18,000**

(1) The Council appointed external contractors to complete the audit of housing and council tax benefit claims which has reduced the audit fee for the 2010/11 grant claim audit by about £30,000

(2) The Audit Commission provided a rebate of £34,200 in the year

(3) Review of Procurement commissioned by the Monitoring Officer

2.7 A number of the grant claim and other returns we are required to audit are currently being reviewed or do not require certification until later in the year. The fee therefore remains an estimate at this time.

Independence

2.8 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in our Audit Plan for 2010/11, has remained valid throughout the period of the audit

2.9 We would like to thank Council staff for their co-operation and assistance provided throughout the audit.

3 Financial statements

Requirements

3.1 We are required to provide an opinion on whether your financial statements for the year ended 31 March 2011 give a true and fair view of your financial position and income and expenditure, and have been properly prepared in accordance with the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom.

3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.

3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.

3.4 In carrying out our work we determine and apply a level of materiality. The audit cannot be relied upon to identify *all* risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements, such as the senior officer remuneration report.

3.5 We are also required to set a second level of materiality (known as "performance materiality") which is used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

3.6 We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £145,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud.

3.7 We will identify material corrected misstatements individually. We have requested that any non-trivial uncorrected misstatements be corrected and management have agreed to make these amendments.

Reporting to those charged with governance

3.8 We report to you:

- our assessment of and response to **significant risks** in the financial statements
- significant qualitative aspects of **accounting practices** including the application of the applicable **financial reporting framework**
- significant difficulties that we have encountered during the course of the audit
- significant matters discussed, or subject to correspondence with management or other employees
- material **misstatements** that have been **corrected by management**
- **uncorrected misstatements**
- **written representations** that we are requesting from you which includes the final draft letter of representation to be agreed by management and those charged with governance

- significant deficiencies in **accounting and internal control systems** identified during our work
- matters required to be reported by **other auditing standards**
- any **other audit matters of governance interest** relevant to the financial reporting process
- expected modifications to the **audit report**.

3.9 We have highlighted in the items above those areas where we have communicated issues arising from our audit. Our comments in these areas are set out in order below.

Significant risks of material misstatement

3.10 Auditing standards require that we bring to your attention areas that require additional or special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management. We reported to you our risk assessment in the 2010/11 Audit Plan issued in December 2010. Following our detailed review of the Council's financial systems and processes in April and May 2011, we identified three further significant risks, as shown below.

Management override

3.11 Management override refers to the ability of management to manipulate accounting records and prepare fraudulent financial statements by overriding what might appear to be effective internal controls. Management is in a unique position to perpetrate or conceal the effects of fraud through recording fictitious journal entries, inappropriately adjusting assumptions and changing judgments used to estimate account balances, engaging in complex transactions that are structured to misrepresent the financial position, and altering records and terms related to significant and unusual transactions. Therefore, we are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards as discussed in our Audit Plan.

3.12 Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.

3.13 However, as noted in our conclusions about Accounting and internal control systems (see paragraph 3.105), there is a weakness in controls over journals raised in schools because an officer may prepare and then authorise a journal. In addition, our audit testing of a sample of journals highlighted that a journal had been posted twice in relation to government grant income and expenditure totalling £18,552. Further testing identified a total error of £177,000 and the draft accounts were amended accordingly. Because of the further risk of misstatement arising from the weakness in controls, we completed additional testing and ensured our sample covered journals prepared and authorised in schools. Our work did not identify any further examples of errors in preparing and posting journals and we do not consider the error we found arose because of management's override of controls.

3.14 In addition, the Council's accounting policy for accruing income and expenditure where regular, quarterly payments are made was not consistently followed. The additional audit procedures we completed confirmed the trivial errors we found did not arise because of management's override of controls.

3.15 We have reviewed material accounting estimates identified as having high estimation uncertainty or subject to a significant degree of judgement and further detail is provided in the section on 'Appropriateness of management accounting estimates' (see paragraph 3.64 below).

Implementation of International Financial Reporting Standards (IFRS)

3.16 The introduction of IFRS as the financial reporting framework for local authorities requires a review of material classes of transactions, balances and disclosures where the accounting treatment differs from that previously recognised under the UK GAAP based SORP. This requires restatement of the opening balances at 1 April 2009, restatement of the 2009/10 accounts and review of the correct accounting treatment of transactions in 2010/11.

3.17 In April 2011 we reviewed the restated balances produced by management for the period ended 31 March 2010. The work provided the basis of the restated accounts in the IFRS format required as at 1 April 2010. At that time, we highlighted the further work the Council needed to undertake to produce accounts fully compliant with the IFRS Code of Practice. Officers implemented some, but not all of our recommendations. Management has highlighted the resources available to complete an efficient closedown of the 2010/11 accounts was limited. As a consequence, our audit of the 2010/11 financial statements identified material and other non-trivial errors and inconsistencies which management addressed.

3.18 The revised financial statements confirm the Council has appropriately applied IFRS, including changes in accounting standards, the new format of the financial statements, additional disclosure requirements and restated comparative information. The Council has therefore put in place appropriate arrangements to adopt IFRS and to restate its previous UK GAAP based accounts though action is needed to strengthen the accounts production process. The outcome of our detailed audit work is summarised in the section on 'Misstatements corrected by management' below.

3.19 The key changes introduced by IFRS that are applicable to the Council are set out below, including the Council's response to these changes.

Leases under IFRIC 4 (lease type arrangements) and IAS 17 (leases)

3.20 IAS 17 increases the qualitative criteria to be applied in assessing whether a lease is a finance lease or an operating lease and requires that land and buildings are considered separately for the purposes of the lease calculations. IFRIC 4 requires arrangements or a series of transactions that convey the right to use an asset to be reviewed to assess whether they meet the definition of a lease in IAS 17 (and subsequent inclusion as a finance lease or operating lease).

3.21 The Council has reviewed its leases and other contractual arrangements and recognised finance lease liabilities and corresponding property, plant and equipment with a carrying value as at 31 March 2011. Comparatives have now been restated accordingly.

3.22 In addition, as part of this exercise, the Council has re-considered whether any of its contractual arrangements meet the specific criteria for service concessions in IFRIC 12, which the Council was required to comply with from 2009/10. No new arrangements were identified by the Council which required the application of IFRIC 12.

3.23 Our review of operating leases highlighted inconsistencies between the working papers supporting note 28 disclosing the value of future minimum lease payments over time and the information contained within the lease agreements. While the differences were trivial, we recommend the Council undertakes a review in future years to ensure the information contained in its working papers is accurate and consistent with underlying lease agreements.

3.24 Based on our work, we are satisfied that the Council has now appropriately assessed whether its arrangements contain the substance of a lease and property leases have been reviewed for separate leases of land and buildings.

Investment properties under IAS 40

3.25 IAS 40 requires that investment properties are now separately disclosed and measured at fair value, with valuation gains or losses accounted for in the Comprehensive Income and Expenditure Statement. The Council has identified investment properties with a carrying value of £5.8 million as at 31 March 2011, consisting of a number of properties held for the purposes of earning rental income and land held for development and capital appreciation purposes. The properties were revalued on 1 April 2009 though no valuation was completed in 2010/11. Management did not expect any significant increase in asset values and the internal valuer's desktop impairment review as at 31 March 2011 confirmed no price impairment occurred. We are therefore satisfied that the Council has appropriately classified its investment properties and that the fair value of these properties is reasonable.

Component accounting for assets under IAS 16 (Property, plant and equipment)

3.26 IAS 16 requires that depreciation is calculated based on significant components of property, plant and equipment, and that an estimate of the carrying value of the replaced components in additions for the year should de-recognised in the accounts. The Council is required to apply this change prospectively from 1 April 2010.

3.27 The Council reviewed all General Fund non-current assets during the year where significant expenditure was incurred to enhance the asset or where a significant acquisition was made. The Council determined only one asset (Medway Park Leisure Centre) met the criteria for componentisation and our work confirmed appropriate disclosure of the transactions involved. Officers also reviewed all other leisure centres and its crematorium and we agreed with the Council's conclusion that no significant enhancement or acquisitions occurred in the year. The Council will consider further the impact of component accounting on the assets that are due to be revalued as at 1 April 2012 at that time.

3.28 The Council's internal valuer (IV) reviewed a sample of schools and concluded the value of components such as the roof; boilers and windows are significant compared to the total value of the asset. We reviewed the Council's work and agreed with the conclusion that componentisation would not materially affect the amount of depreciation charged as at 31 March 2011. The Council plans to extend its valuation of schools in 2011/12 and to review the impact of future capital investment on school components.

3.29 From 1 April 2010, all housing local authorities are required to review the significant components of the value of Council Dwellings and assess whether the use of the Major Repairs Allowance (MRA) is a suitable basis for depreciation. We reviewed the Council's work and concluded the MRA is a reasonable basis compared to component depreciation as at 31 March 2011. We continue to discuss the arrangements for componentisation with the Council in light of advice provided by CIPFA.

3.30 We are satisfied the Council has appropriately componentised its assets that have been revalued during the year and applied depreciation on a reasonable basis for significant components.

Employee benefits under IAS 19

3.31 IAS 19 requires that all employee benefits are accounted for as they are earned by the employee, which results in the recognition of employee accumulating compensated absences, such as untaken holiday pay, as an accrual in the financial statements.

3.32 The Council has accrued for short term accumulating compensated absences of £4.7 million as at 31 March 2011 and comparatives have also been restated to include estimated accruals. We are satisfied the Council has applied a reasonable approach for determining the value of untaken holiday pay and that the calculations and assumptions applied follow guidance issued by CIPFA.

Government grants and other contributions under IPSAS 23

3.33 Grants and contributions for revenue and capital purposes are now required to be recognised as income immediately rather than being deferred and released to revenue to match expenditure or depreciation, where grant conditions have been met or there is a reasonable assurance that grant conditions will be met.

3.34 The Council has reviewed its grants income and balances previously held in a 'Government grants deferred account' and an 'Unapplied grants and contributions' balance under UK GAAP and has reversed amounts that do not qualify for recognition as receipts in advance to the Capital Adjustment Account.

3.35 We found a number of errors in accounting for capital government grants. The Council has amended the CIES; Trade Receivables and the Capital Grants Unapplied account accordingly.

3.36 We are satisfied that the Council has correctly accounted for the recognition or deferral of capital grant receipts.

3.37 The draft statements disclosed unspent revenue government grant amounts as creditor balances but did not recognise such income in the Comprehensive Statement of Income and Expenditure (CIES). The Council did not therefore fully comply with the IFRS Code of Practice. Based on our findings, the Council completed a detailed review of all government grants received in 2009/10 and 2010/11. The Council concluded unspent grant income should be disclosed as an earmarked reserve because the Chief Finance Officer reasonably concluded the terms and conditions would be met. Further details are provided at the non-trivial misstatements section.

Group accounting requirements

3.38 IFRS places greater emphasis on the ability to control rather than actual control in deciding whether entities should be included in group accounts of a parent entity.

3.39 The Council has reviewed its interests in other entities and concluded that it does not have significant influence over any other organisation by way of power to participate in their financial and operating policies that would have a material impact on its financial statements.

3.40 We are satisfied that there is no requirement for group financial statements to be prepared and we believe that this is a reasonable judgement.

Operating segment disclosures under IFRS 8

3.41 IFRS 8 introduces a requirement for inclusion of segmental reporting disclosures in the financial statements based on internal financial management budgets and the removal of certain Code adjustments, such as capital charges, based on subjective analysis.

3.42 The Council has disclosed operating segmental information in the form of principal departments as this budget monitoring information is regularly reported to the Council, the Cabinet and the Senior Management Team, who are the Council's chief operating decision makers. Departmental income and expenditure has been reconciled to the total cost of services and to a subjective analysis of the surplus on provision of services in the Comprehensive Income and Expenditure Statement.

3.43 We are satisfied that the Council has appropriately disclosed its operating segments.

Other significant risks of material misstatement identified at the planning stage

Fixed asset register

3.44 In previous years, the Council experienced some difficulties in maintaining its fixed asset register which we have brought to the attention of the Audit Committee. The register was not fully maintained throughout 2010/11 and officers could not produce the closing files and audit trails necessary to support the non-current asset amounts included in the balance sheet and supporting notes. We undertook a substantial amount of additional work to highlight the errors and inconsistencies in the draft accounts provided to us and the Chief Finance Officer directed officers to bring the fixed asset register up to date to enable production of balances as at 1 April 2009; 31 March 2010 and 31 March 2011.

3.45 The additional work completed by the Council confirms the draft accounts reviewed by the Audit Committee on 5 July 2011 and presented to external audit were materially misstated. Paragraph 3.75 and 3.76 of this report, and Appendix B provide details about the amendments made to Property, Plant and Equipment amounts contained in the balance sheet and supporting disclosure notes.

Other significant risks of material misstatement reported to the Audit Committee (24 July 2011)

Authorisation of sundry debtors

3.46 The Council's financial procedures require that sundry debtor invoices should be created only when a valid requisition is received from an appropriately authorised officer. However, we found the control is not applied at all in practice and that any officer may prepare a requisition and a debtor invoice will be raised and a debtor billed accordingly.

3.47 We completed additional substantive testing of all material sundry debtors as at 31 March 2011 before concluding the balance is materially correct.

Authorisation of schools journals

3.48 Controls over the authorisation of journals prepared by schools under delegated budget arrangements are inconsistently applied. We therefore identified the risk expenditure reported by schools as at 31 March 2011 may contain amounts that are not appropriately classified. We performed substantive testing on an extended sample of school journals and expenditure items. Our work concluded that for those items tested, we were able to gain assurance that the journals had been correctly authorised and that schools expenditure incurred under delegated arrangements is materially correct.

Care Director System

3.49 The Head of Internal Audit reported controls operating within the Care Director system (which calculates social care income and expenditure) did not operate effectively throughout the year. In particular:

- evidence of completing the periodic reconciliation between the Care Director system and the Council's financial ledger (Integra) was not retained
- not all financial assessments are recorded as completed on the system before payments are disbursed
- examples have been found where the date of service commencement reported by the Care Director system does not match the date recorded within the financial assessment made by social care officers

- examples of refunds being made without adequate supporting documentation a lack of evidence of monitoring of debt outstanding were found
- evidence to support the authorisation of debts written off was not always retained.

3.50 As a result of these findings we performed additional testing on the transactions (income and expenditure) for Care Director contained in the accounts. Our work was completed satisfactorily.

Accounting practices and financial reporting framework

3.51 The financial statements provided to audit were not fully prepared in accordance with the IFRS Code of Practice; contained material errors and did not consistently apply relevant accounting policies. As a result of our audit work, and the amendments made to the financial statements by the Council, we are satisfied such matters have been resolved.

3.52 The key change introduced by the 2010 Code of Practice on Local Authority Accounting in the United Kingdom was the introduction of an IFRS based set of financial statements, resulting in a number of significant changes in accounting practice. The impact of IFRS is commented on in detail above.

3.53 Our audit of the draft statements identified a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code. These matters are reported in the Misstatements corrected by management section below. The audited financial statements follow the template for local authority financial statements prepared by CIPFA.

Accounts preparation and audit process

Accounts preparation process

3.54 The requirement for Members to approve the draft Statement of Accounts by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations did introduce the requirement for the Responsible Financial Officer (the Chief Finance Officer) to sign and present the financial statements for audit by 30 June 2011 and to confirm the accounts provided a true and fair view of the Council's financial position. The financial statements were signed by the Chief Finance Officer and presented to us for audit on 29 June 2011. We were presented with a revised version of the accounts on 8 July 2011.

3.55 Management acknowledges a thorough review of the financial statements should have been completed before the statements were presented to audit. It is also accepted (by management) the Council's closedown processes did not permit sufficient time to complete such work in the lead up to the 30 June deadline for the Chief Finance Officer's certification.

Audit process

3.56 As part of our planning for the audit, we prepared a detailed document request specifying the information that we would require to complete the audit. The Council provided us with files of working papers on 11 July, in line with the agreed timetable. Additional working papers were provided between July and September, as summarised below.

Property, Plant and Equipment (PPE)

3.57 Working papers provided for Property, Plant and Equipment (PPE) amounts did not fully support the balances reported in the financial statements. The situation led to a substantial number of requests from auditors between July and September for further documentation to support the balances disclosed for fixed assets held for sale, surplus fixed assets, revaluation of fixed assets and an up to date fixed asset register.

3.58 Recognising the fixed asset register could not provide the information necessary to support such balances, management prepared a spreadsheet to record all assets held by the

Council as at 31 March 2010 and the subsequent movements in 2010/11. The approach aimed to produce materially correct PPE balances as at 31 March 2011 and for prior periods. However, we could not complete the audit procedures necessary to confirm PPE amounts were materially correct for transactions involving the Revaluation Reserve, CAA and related disclosure notes.

3.59 Our audit of the revised PPE balances commenced on 1 November 2011 when the Council provided an updated asset register and working papers. We completed the audit procedures necessary and confirmed the revised balances and supporting notes are materially correct. A full analysis of amendments made to the draft accounts is provided at Appendix B.

3.60 We recommend that the electronic asset register is updated in the light of the additional work the Council has undertaken and that the register is fully maintained in future years. This is particularly relevant given the requirements to identify non-current asset components and the Government's proposals for a 'self-financing' Housing Revenue Account. We also recommend training is provided to relevant finance officers to ensure the effective operation of the register.

Payroll amounts

3.61 We requested working papers for payroll transactions in March 2011. We specified the information required to allow a full analysis of payments and deductions made in the year for audit review. Payroll officers provided such information only in September 2011, which delayed the progress of our audit.

Care Director system

3.62 Our review of financial systems identified weaknesses in the operation of controls within the Care Director system. We therefore requested an analysis of social care expenditure in the year and details of the contributions made by those eligible towards services. We also requested information about the financial assessments completed by the Council throughout 2010/11. We were provided with the information (previously requested in June 2011) only in September 2011, further delaying the progress of our audit work.

Conclusion

3.63 The financial statements submitted for audit and published on the Council's website contained the following errors and inconsistencies:

- three material errors relating to the value of Property, Plant and Equipment and associated disclosure notes as at 1 April 2010 and 31 March 2011
- one material error involving the consolidation of the Housing Revenue Account and the CIES
- two material errors relating to the Capital Adjustment Account (opening and closing balances)
- 10 non-trivial errors
- over thirty missing; incorrect or inconsistent disclosures
- over thirty typographical, casting and cross casting errors.

Appropriateness of management accounting estimates

3.64 We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value that these are recognised at. Our audit identified the following matters.

Valuation of property, plant and equipment

3.65 Land and buildings are required to be disclosed at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council revalues land and buildings using a five year programme. The Council does not adjust for price indices between formal valuations, which is accepted practice by the Code.

3.66 Valuation reports on land and buildings and useful economic lives are provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, having regard to local prices and building tender indices in the public sector. Management accept the valuation information provided by the expert and valuation adjustments are made to the financial statements where required.

3.67 We are satisfied that the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.

3.68 Equipment assets, such as vehicles and information technology, are reasonably short-life assets and the depreciated carrying value is assumed to be a reasonable proxy for their fair value, without requiring any regular market valuation adjustments. We have reviewed the useful economic lives allocated to classes of equipment assets and are satisfied that they are not unreasonable.

Estimated pension liability

3.69 The net pension liability of the Council comprises its share of the market value of assets held in the Kent County Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.

3.70 An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.

3.71 Management has agreed the assumptions made by the actuary and these are included in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.

3.72 We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.

Recoverability of debtor balances

3.73 The Council makes allowance for the impairment of debtors based on an assessment of recoverability. Management reviews all debts, and specific amounts that are considered to be unlikely to be recovered are included in the allowance for doubtful debts. Most categories of the Council's debtors are not subject to substantial fluctuation and management applies percentages to the aged profile of these debts, based on past experience and future expectations of recoverability, to estimate the allowance for doubtful debts.

3.74 We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts and are satisfied that it is reasonable.

Testing of transactions and balances

3.75 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. The following matters arose which we bring to your attention:

Material misstatements corrected by management

Balance Sheet

Prior period adjustment
Value of Council Dwellings overstated by £38.4 million

3.76 The Council is required to apply an adjustment factor to the carrying value of its Council Dwelling stock known as the existing use, social housing value (EU-SHV) adjustment. The adjustment factor reduces the value of Council Dwellings held on the Council's balance sheet. In 2009/10, the adjustment factor amounted to 55 per cent. However, officers applied a discount factor of only 45 per cent and the value of Council Dwellings as at 31 March 2010 was overstated by £38.4 million. Because the error is material, and significant to readers of the accounts, a Prior Period Adjustment (PPA) disclosure has been included in the financial statements. There is no impact on the net expenditure of the Council for the years for 2009/10 and 2010/11.

Property, Plant and Equipment

3.77 The additional work completed by the Council confirms the draft accounts reviewed by the Audit Committee on 5 July 2011 and presented to external audit were materially misstated. Appendix B shows the amendments made to Property, Plant and Equipment amounts contained in the balance sheet and supporting disclosure notes. The following matters arose following our audit and the review of the fixed asset register completed by the Council:

Opening Balances as at 1 April 2010

3.78 Opening balances as at 1 April 2010 were amended because:

- the value of Council Dwellings was overstated by £40 million. The position arose mainly because of a prior period adjustment (£38.4 million see paragraph 3.76) and the remaining errors identified by officers.

- the value of Other Land and Buildings was overstated by £11.7 million (because of a combination of errors made in drafting the accounts)

3.79 Other immaterial adjustments were made to the value of vehicles, Plant and Equipment (£895,000 overstated) and surplus assets (£1.6 million understated).

Closing Balances as at 31 March 2011

3.80 Closing balances as at 31 March 2011 were amended because the value of:

- Other Land and Buildings was overstated by £17.4 million (because of a combination of errors made in drafting the accounts)

- Vehicles, Plant and Equipment was understated by £3.7 million because the Council excluded finance leases from the fixed asset register in error.

3.81 Other immaterial amendments were made to the value of Council dwellings (£840,000 understated) and Surplus Assets (£1.9 million). Our audit of amended balances found a further error because the value of Other Land and Buildings was understated by £1.1 million.

3.82 The overall effect of the adjustments made to Property Plant and Equipment balances is the amount disclosed:

- as at 1 April 2010 reduced by £51.7 million (from £961.6 million to £909.8 million)
- as at 31 March 2011 reduced by £13.8 million (from £888.3 million to £874.5 million).

3.83 The IFRS Code requires local authorities to restate the balance sheet as at 1 April 2009. An immaterial amendment was made to the 1 April 2009 balance disclosed for Property, Plant and Equipment which reduced from £973 million to £970.7 million.

3.84 In addition to the amendments made to the Balance Sheet and supporting notes, the Council amended the Revaluation Reserve and the Capital Adjustment Account as at 1 April 2010 and 31 March 2011 (as shown below). No further amendments were required following our audit of the revised accounts.

	1 April 2009 £000	1 April 2010 £000	31 March 2011 £000
Revaluation Reserve			
Draft financial statements reviewed by Audit Committee 5 July 2011	62,974	99,595	91,317
Audit and other amendments	3,228	(7,108)	(1,120)
Audited Accounts	**£66,202**	**£92,487**	**£90,197**
Capital Adjustment Account			
Draft financial statements reviewed by Audit Committee 5 July 2011	687,391	637,874	566,595
Audit and other amendments	(2,683)	(41,777)	(11,820)
Audited Accounts	**£681,576**	**£595,906**	**£551,761**

Housing Revenue Account

Consolidation of Housing Revenue Account (HRA) with the Comprehensive Income and Expenditure Account (CIES) – net cost of services overstated by £43 million

3.85 A number of errors were made in preparing the Housing Revenue Account (HRA). Further errors were made in consolidating the account into the Comprehensive Income and Expenditure Account (CIES).

3.86 The prior period adjustment (see earlier paragraphs) affected the HRA because the market value adjustment factor published by the Government for the period commencing 1 April 2010 changed to 32 per cent. Because the Council had previously calculated the adjustment factor at 55 per cent (and not at 45 per cent as required), the impairment included in the HRA was overstated. The Council amended the accounts to reduce the impairment and depreciation amount from £74.7 million to £36.2 million. The total expenditure reported by the HRA was therefore reduced from £82.5 million to £44 million.

Non-Trivial misstatements corrected by management

3.87 Our audit highlighted a number of non-material but non-trivial errors which management corrected, as shown below.

Comprehensive Income and Expenditure Statement

Consolidation of Housing Revenue Account (HRA) with the Comprehensive Income and Expenditure Account (CIES) – HRA net cost of services overstated by £1.3 million

3.88 Other amendments were made to the HRA amount consolidated into the net cost of services in the CIES because the Council incorrectly included the total deficit in the year reported by the HRA (£71.1 million). Officers should have consolidated only the income and expenditure attributable to HRA services. In addition to the material amendment highlighted above, the following non-trivial amendments were made to:

- remove interest payable from the HRA cost of services (£862,000)
- remove the actuarial gain attributable (to the HRA) from the HRA cost of services (£451,000).

3.89 The revised accounts correctly consolidate the net expenditure on HRA services of £32.136 million. The amendments made are reflected in the overall reduction of £43 million in the net cost of services reported in the CIES (from £265 million to £222 million).

Government Grants (also affects Balance Sheet - Earmarked Reserves, Receipts in Advance and the CIES service lines)

3.90 The draft financial statements incorrectly disclosed balances available from revenue government grant amounts as creditor amounts and did not recognise such income in the Comprehensive Statement of Income and Expenditure (CIES). The Council did not therefore fully comply with the IFRS Code of Practice. Based on our findings, the Council completed a detailed review of all government grants received in 2009/10 and 2010/11. The Council concluded that for all unspent grant income, the amounts should be disclosed as earmarked reserves (and not as creditors) because the Chief Finance Officer reasonably concluded the terms and conditions of the grants would be met.

3.91 All government grants have now been recognised as received in year. The CIES and the balance sheet have been amended as follows:

	2009/10 £000	2010/11 £000
CIES		
Income – all service lines increased	1,700	2,590
Net Expenditure decreased	(1,700)	(2,590)
Balance Sheet		
Receipts in Advance decreased	(4,500)	(7,100)
Earmarked Reserves increased	£4,500	£7,100

Income (various service lines) overstated by £177,000
Expenditure (various service lines) overstated by £177,000

3.92 Our audit testing of Government Grant income and expenditure balances identified a journal amounting to £18,552 had been posted twice in error. Further testing performed in this area highlighted other errors. The total value of errors (including the £18,552 amount) was £177,000. Income and expenditure for Government Grants was therefore overstated and management amended the accounts. The impact of this error is a reduction in income and expenditure of £177,000 across various service lines. There is no impact on the Council's net expenditure.

Disclosures corrected by management

Comprehensive Income and Expenditure Statement Disclosures

Other Housing Services - Income overstated by £235,000
Cultural, environment, planning and regulatory services - Income understated by £235,000

3.93 The Council incorrectly classified income received from shop rents as other housing services income. Our testing identified the income was not attributable to any housing service and should have been included in the Cultural, Environment, planning and regulatory services line in the CIES. The Council has transferred the total income of £235,000 received in the year to corporate services line in the CIES. The amendment increases the income for the Cultural, Environmental, Planning and Regulatory service line from £27.9 million to £28.2 million. The amendment increases the net expenditure on other Housing Services from £14.612 million to £14.848 million.

Allocation of cost centres – net cost of services

3.94 The Best Value Accounting Code of Practice (BVACOP) requires local authorities to allocate central cost centres to the individual service lines within the net cost of services based on agreed methodologies. Our work found that the Council had not allocated all costs in accordance with its published methodology and about £1 million of overheads was reallocated across service lines within the net cost of services. The amendment affected the restated balances as at 31 March 2010. There was no effect on the net expenditure of the Council as at 31 March 2011.

Balance Sheet Disclosures

Cash and Cash Equivalents overstated by £861,000
Trade Receivables (Short Term Debtors) understated by £861,000

3.95 The IFRS Code of Practice requires local authorities to account for non-Domestic Rate Transactions on an 'Agency' basis. This means the Council calculates the net amount receivable or payable to the Government as at 31 March each year. As at 31 March 2011, the net amount receivable from the Government was £861,000. The amount should have been classified as a debtor due from 'central government bodies'. However, the amount was incorrectly included with the 'cash and cash equivalents' balance on the Balance Sheet. The Council amended the disclosure. There is no effect on the net assets of the Council.

Provisions and Contingent Liabilities understated by £260,000
Trade Receivables (Sundry Debtors) understated by £260,000

3.96 A contractor has commenced legal proceedings against the Council and is seeking damages amounting to £260,000. The outcome of the claim remains uncertain. The Council decided to account for the potential claim as a 'credit' balance within the sundry debtors balance as at 31 March 2011. The Council agrees the accounting treatment is incorrect and has now established a provision for the amount and has removed the 'credit' from the sundry debtors balance. The amendment means the current assets of the Council increased by £260,000 and the Current Liabilities (Provisions) increased by £260,000. There is no effect on the net assets of the Council.

Overpayment of Housing Benefit

3.97 The Council is expected to recover the overpayment of housing benefit where it is economical to do so. However, given the difficulties in recovering such amounts from benefit claimants, the Council fully impairs the amount receivable. The following table highlights the value of housing benefit overpayments outstanding as at 31 March 2010 and 2011 as well as the amount of income recovered in each year. The Council has agreed to include a note disclosing such amounts accordingly.

	2009/10 £000	2010/11 £000
Housing Benefit Overpayments fully impaired	3,100	3,600
Overpayments recovered	(835)	(719)

Analysis of Debtors (note 9)

3.98 Our work identified the Council's closedown for accruals did not reclassify debtor's accruals in the new IFRS Code of Practice format for the disclosure of debtors by type. Further work undertaken by the Finance team established that debtors amounting to £1.78 million were incorrectly classified at note 10 and the accounts were amended as follows:

- NHS debtors increased by £950,000
- Other Local Authority Debtors increased by £83,000
- Other entities and individual debtors decreased by £1.78 million.

3.99 In addition, the Council did not instruct service managers to provide any information for corresponding amounts for automated accruals as at 31 March 2010. The Council has not been able to fully classify debtors in an IFRS Code of Practice format for the 2009/10 year for comparison purposes. While the total amount of debtors as at 31 March 2010 disclosed at note 9 is correct, (£61.5 million) the Council could not fully classify debtors according to the IFRS Code of Practice requirements. The Council was able to classify some £15 million of the total debtors amount with the residual amount (£46.5 million) analysed on a pro-rata basis using 31 March 2011 amounts as a base.

Collection Fund Statement Disclosures

National non-Domestic Rate income

3.100 Note 2 of the Collection Fund ('Income from Business rates') was inconsistent with the Collection Fund Statement in that the value of income due was understated by £6.1 million because adjustments made to business ratepayer accounts after 1 April 2010 were excluded from the disclosure note. In addition, the note had not been updated for transactions involving void property accounts and other transitional relief awarded to certain properties which meant the amount of relief awarded in the year was understated by £6.1 million

3.101 The position did not affect the collection fund statement and the disclosure (note 2) was amended as follows:

- the amount collectable in the year increased from £82.6 million to £88.7 million

- the amount of Transitional and other Reliefs increased from £11.1 million to £17.2 million.

Provision for bad and doubtful debts overstated by £1.6 million

3.102 The IFRS Code of Practice requires separate disclosure of the accrued income collectable from business ratepayers and the collection fund deficit on behalf of the Government. The amount is disclosed net of the provision for non-collection taken into account in calculating the amount payable to the national pool for the year. The Council did not fully follow the Code requirements and included the provision for business ratepayers within the overall provision for bad and doubtful debts disclosed in the Collection Fund Statement. The Council have amended both of the errors identified above and there is no effect on the overall Collection Fund deficit reported as at 31 March 2011.

Collection fund deficit

3.103 The Council should disclose the amount of surplus or deficit on the Collection Fund each year. Because the Council did not separately disclose accrued income collectable from Business Ratepayers (see above paragraph) the Council did not disclose the total deficit for the year of £784,000. However, it had provided details about how the deficit was allocated between precepting authorities. The disclosure note has now been amended to correctly show the deficit for the year of £784,000 and the allocation of the prior year's surplus of £430,000 more clearly.

Uncorrected misstatements

There are no uncorrected misstatements that we would need to bring to your attention.

Written representations

3.104 We are required by auditing standards to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as appendix C.

Accounting and internal control systems

3.105 We have reviewed the Council's key financial and operational systems which contribute to the preparation of materially accurate financial statements. The purpose of the audit is for us to express an opinion on the financial statements. Our audit is not designed to identify all deficiencies in the system of internal control or to identify all improvements which might be necessary to address the deficiencies identified.

3.106 The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and we report only those deficiencies that have come to our attention as a result of our audit work and that we have concluded are of sufficient importance to merit your attention. Your key financial systems are:

- Main accounting system
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Investments and investment income
- Care Director Income
- Care Director expenditure
- Housing Benefits
- National Non Domestic Rates
- Council Tax.

3.107 Where possible, we sought to use the work of Internal Audit and thereby avoid unnecessary duplication of audit effort. Internal Audit has satisfactorily carried out a comprehensive programme of work and we were able to place reliance on their work for the testing of the effectiveness of specific controls.

3.108 Where we identified significant weaknesses that posed a significant risk to the validity of the financial statements we included these in our letter to Audit Committee Members on 24 July 2011 and adopted specific auditing tests to gain sufficient assurance over these risks. Details of these are provided in the significant risk section above.

Other auditing standards

Risks of material misstatement due to fraud (ISA 240)

3.109 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

3.110 We have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. In order to identify risks of material misstatement due to fraud, and the controls you have put in place to mitigate those risks, we have:

- discussed your anti fraud and corruption arrangements with officers and those charged with governance
- considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
- made enquiries regarding instances of actual fraud you have brought to our attention.

3.111 We have been made aware of the significant frauds that have been identified by the Council during the year. Where necessary we have revised our audit approach to key risk areas. We are not aware of any reported material fraud or corruption suffered by the Council during the year ended 31 March 2011 and we did not identify any significant fraud risks that affected our audit programme.

3.112 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance

Other audit matters of governance interest

Annual governance statement

3.113 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2010/11 financial statements. We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken. The statement is not inconsistent with our understanding of the Council's governance arrangements.

Accounting policies - Accruals of income and expenditure

3.114 It is the Council's published policy that payments for utility services should not be accrued as at 31 March each year. The Chief Finance Officer has concluded any payment in advance arising from such accruals would not be material to the overall financial position of the Council. Our audit testing found examples of payments made to suppliers under ICT contracts (three transactions with a total prepayment amount of £15,000) where a payment in advance should have been recognised in the 2010/11 accounts but had not. We also found a further two transactions where officers had accrued for such expenditure and a payment in advance totalling £7,000 was included in the accounts.

3.115 Officers reviewed the five transactions and concluded the Council’s policy was inconsistently applied. Because the transactions are regular, quarterly payments, the amounts should not have been accrued and no payments in advance should be included in the accounts. We have accepted the Council’s conclusion and the accounting policy has been updated to highlight that regular payments under ICT contacts are not accrued as at 31 March each year.

3.116 We also found examples (three transactions with a total value of £23,000) where a payment in advance should have been identified in the accounts but had not. None of these transactions were within the definitions published in the Council’s policy. We extended our audit testing and found no further errors. The amounts involved are trivial.

Audit report

3.117 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements.

4 Use of resources

4.1 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the Council's use of resources (value for money, or "VFM").

4.2 In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against characteristics specified by the Audit Commission in its guidance to auditors. The focus of our work in 2010/11 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

4.3 Our financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control. Our review of economy, efficiency and effectiveness considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

4.4 The key issues arising from our work are summarised below.

Financial resilience

4.5 The Council's financial governance arrangements remain effective. The annual budget and medium term financial planning processes are comprehensive and led by the Senior Management Team. The 'Star Chamber' approach continues to underpin the annual service and financial planning process, with information about costs and performance included in service plans, utilising data produced by the Council's performance management system (Covalent). The corporate plan was updated in the year based on consultation with stakeholders. The Council's five priority areas for investment and service improvement are consistently understood across the organisation. The Council's two core values for customer service and securing value for money underpin the financial planning and service development processes. The Council can therefore be confident its resources support achievement of its objectives.

4.6 The Council identified significant financial risks in the year and the Chief Finance Officer concluded the level of reserves was inadequate. Action was taken to ensure the 2010/11 budget was balanced after savings of £18 million were identified and contributions from reserves (£4 million) and other surpluses (£983,000) were approved. The planned reduction in expenditure, and achievement of savings enabled the Council to achieve a surplus of £3.2 million as at 31 March 2011. The Council was therefore able to restore amounts to its general reserves.

4.7 The Council has responded to the Government's financial settlements in 2011/12 by further reducing expenditure and identifying savings for the financial year amounting to £23 million. As at the end of September 2011, the Chief Finance Officer has highlighted the risk the budget may be overspent by £5 million. Management action is now underway designed to ensure the overall budget is achieved by 31 March 2012.

Challenging economy, efficiency and effectiveness

4.8 The Council continued to embed performance management approach in the year, through the further development of the Covalent system. Comprehensive performance management reports are produced to monitor achievement of targets and to highlight the risk to the Council where performance is behind target. Council priorities are underpinned by a suite of local and national performance indicators, with outcomes reported quarterly in an accessible format, to portfolio holders (the Cabinet). The Council understands the underlying reasons for reported performance and has taken action to invest additional resources where performance is out of line with plans (in Children's Services and Adult Social Care services for instance).

4.9 The 'Better for Less' project was initiated to identify new ways of working within the Council and to find alternative ways of delivering services. The early stages of the project have targeted those services with relatively higher costs for review and involving customers (such as the benefits service). As at 31 March 2011, the Council reported 63 per cent of performance indicators either met or exceeded the targets set. About 30 per cent of targets were close to achievement within a tolerable variance. Only seven per cent of targets were well behind target. Through effective partnership working, the Council is reporting improved performance in reducing anti-social behaviour and the overall level of crime in the area reduced in the year. Progress was made towards the Council's priority for Children and young people having the best start in life, with the levels of educational attainment in schools improving over the last 12 months.

Audit report (value for money conclusion)

4.10 Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

4.11 We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. We will be issuing an unqualified value for money conclusion.

Appendix A: Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial reporting					
Preparation of Accounts					
The draft financial statements presented to audit were incomplete, included transposition and typographical errors throughout; contained inconsistencies and balancing items between primary statements and supporting notes; and did not fully follow the requirements of accounting standards or the IFRS Code of Practice published by CIPFA. The overall quality of the draft accounts was lower compared to previous years.	The Council has commenced a review to ensure there is an adequately resourced, experienced and skilled Finance Department to produce financial statements compliant with professional and statutory guidance and supported by comprehensive closing files and working papers. The Audit Committee should receive a report in due course that sufficient capacity is available to produce the 2011/12 financial statements to a high standard and that a detailed plan is drawn up to support delivery.	High	The future structure and process to be undertaken is being reviewed however as a minimum the current interim structure of the Finance Support team being enhanced by one senior accountant will be a permanent structural change.	Chief Finance Officer	28 February 2012
We worked with the Finance Department to ensure closing files and working papers were prepared in accordance with the external audit 'records required list' we provided. In the event, not all working papers supported the balances subject to audit and our work progressed only with substantial, direct input from Finance Officers. Our audit identified over 60 errors and inconsistencies in the amounts and disclosures reported in the accounts, including six material errors.	The accounts closedown timetable should be clearly defined and adequately resourced to enable management to complete a thorough review of the financial statements before publication on the Council's website and being provided to audit. Closing files and audit trails should be fit for purpose and available when audit fieldwork commences.	High	As part of the movement of the Final accounts process from the Central accounting Team to the Finance Support Team, a thorough review of timetables, processes resourcing levels and working papers, is to be undertaken. The results of this review will be implemented for the final accounts process 2011/12.	Chief Finance Officer	28 February 2012

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial reporting					
Preparation of Accounts					
Working papers provided for Property, Plant and Equipment (PPE) amounts did not fully support the balances reported in the financial statements. The situation led to a substantial number of requests from auditors between July and September for documentation to support the balances disclosed for assets held for sale, surplus assets, revaluation of assets and an up to date fixed asset register.	We recommend that the electronic asset register is updated in the light of the additional work the Council has undertaken and that the register is fully maintained in future years. This is particularly relevant given the requirements to identify non-current asset components and the Government's proposals for a 'self-financing' Housing Revenue Account. We also recommend training is provided to relevant finance officers to ensure the effective operation of the register.	H	A review of the options available will be undertaken, as to whether the existing electronic asset register is updated, a new asset register is obtained, or to continue for at least 2011/12 accounts with a spreadsheet based asset register, particularly with the short time scales that are involved.	Chief Finance Officer / Capital Accountant	31 January 2012
Component accounting for housing is currently being considered by CIPFA. We await the outcome of the review. We will discuss the implications of any changes and direction with the Council as and guidance is issued. We will also continue to liaise with finance and valuation officers as a matter of course.	Ensure that continued liaison takes place between finance staff and external audit to ensure that an agreement is reached regarding the treatment of componentisation of Council dwellings.	H	We will ensure that liaison takes place.	Finance Support Manager	As revaluation occurs
The Council's Policy for accounting for utility bills and other regular payments at 31 March should be consistently applied.	Ensure finance staffs consistently understand the accounting policy for income and expenditure at period end. Year end cut off procedures should ensure expenditure and income items are correctly accounted for in the year that they relate to.	H	Year end training is undertaken along with the publication of year end procedures on a Corporate basis. Officers to liaise with PKF to establish problem areas in order that resources can be focused towards those areas.	Finance Support Manager/Finance manager C&A/ Finance Manager RCC & BSD	March 2012

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Operating Leases. Our testing identified that some lease agreements did not agree to the working paper prepared to support the information contained in the disclosure note about the minimum value of future lease payments. The errors identified are trivial and relate to future minimum lease payments not more than one year and more than one year and not more than five years. The total error identified is: • lease payments due within one year are understated by £6,827 • lease payments due more than one year but not more than five years are understated by £30,444	We recommend the Council undertakes procedures to ensure the information supporting the disclosure of operating leases is accurate and complete.	M	This will be incorporated in the accounts preparation procedure.	Finance Support Manager	March 2012
Audit testing of Government Grant income and expenditure balances identified a journal amounting to £177,000 had been posted twice in error. Income and expenditure for Government Grants was therefore overstated.	Journal authorisation procedures need to be strengthened to ensure duplicate amounts are not posted at the year-end.	H	Process will be reviewed and a consistent approach applied Corporately	Finance Support Manager/Finance Manager C&A/ Finance Manager RCC & BSD	March 2012

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial systems					
We wrote to Audit Committee Members on 27 July 2011 highlighting the weaknesses in controls operating over certain financial systems.	Based on our work with Internal Audit we highlighted the additional audit procedures necessary to gain assurance over certain balances and recommended that: • a fully operational fixed asset register is maintained to underpin the preparation of the annual financial statements. Further training should be provided to officers accordingly	H	A review will be undertaken as to the capability of the current system. Given the time constraint it may not be practical to implement a new system for closure of 2011/12 accounts.	Finance Support Manager	Review to be complete by February 2012
	• controls over the 'Care Director' social care system should be strengthened		'Care Director' is to be replaced but in the meantime we will ensure these weaknesses are addressed.	Finance Manager C&A	Immediate
	• controls over the preparation and authorisation of journals should be consistently applied		Procedures will be reinforced	Finance Support Manager/Finance Manager C&A/ Finance Manager RCC & BSD	Immediate
	• controls over requests for, and subsequent authorisation of, sundry debtor accounts should be implemented in accordance with financial operating procedures.		Procedures require authorised signatories to authorise. In practice this control is unnecessary and procedures will be revised.	Systems manager	Immediate

Appendix B: PPE and Lease Amendments

	Council Dwellings	OLB	VPE	Infrastructure	Community	Surplus	Assets under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
Net Book Value (NBV) 1 April 2010								
Draft financial statements reviewed by Audit Committee 5 July 2011	176,013	623,187	1,351	138,014	6,246	3,770	13,039	961,620
Audit and other amendments	(39,186)	(11,783)	895	0	10	(1,675)	0	(51,737)
Final Audited NBV 1 April 2010	**£136,827**	**£611,404**	**£2,246**	**£138,014**	**£6,256**	**£2,095**	**£13,039**	**£909,883**
Net Book Value 31 March 2011								
Draft financial statements reviewed by Audit Committee 5 July 2011	103,507	607,227	1,330	158,937	10,048	1,845	5,388	888,282
Audit and other amendments	(840)	(18,511)	3,708	3	(16)	1,931	0	(13,725)
Final Audited NBV 31 March 2011	**£102,667**	**£588,716**	**£5,030**	**£158,940**	**£10,032**	**£3,776**	**£5,388**	**£874,549**

Appendix C: Draft letter of representation

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

24 November 2011

Dear Sirs

Financial statements of Medway Council for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Medway Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Chief Finance Officer and s151 Officer my responsibilities for the financial statements and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically:

Grant receipts in advance

I confirm that the judgements in assessing whether or not to defer recognition of unspent grants are reasonable and in accordance with the Code and CIPFA's guidance. In particular, the Council has deferred recognition of revenue receipts in advance of £7.144 million and capital grants and contributions receipts in advance of £32.085 million on the grounds that there are conditions attached to these amounts and that I believe, at the date of approving the Statement of Accounts, that these conditions will be met.

Plans or intentions

The Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

I have disclosed to you the following actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

Related parties

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Uncorrected misstatements

You have not brought to my attention any potential misstatements in the financial statements.

Going concern

I confirm that I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware, including the availability of working capital, levels of announced and forecast Government funding, constraints and ability to raise council taxes, assumption that the functions of the Council will continue in operational existence for the foreseeable future; and have considered a future period of at least one year from the date on which the financial statements will be approved.

INFORMATION PROVIDED

Completeness of information

The Council has provided you with access to all information of which I am aware is relevant to the financial statements. The Council has provided you with all other information that you have requested from us and given you unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

So far as I am aware, there is no information needed by you in connection with preparing your audit report (relevant audit information) of which you are unaware. I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you are aware of that information.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

There have been no deficiencies in internal control other than that reported by Internal Audit or brought to my attention in the auditors' Annual Governance Reports, of which I am aware.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council and of any allegations of fraud or suspected fraud affecting the financial statements communicated to me by employees, former employees, councillors, regulators or others.

Compliance with laws and regulations

I am not aware of any actual or possible instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Related parties

I confirm that I have disclosed to you the identity of all the Council's related parties, related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities and guarantees

There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Contractual agreements

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

Mick Hayward
Chief Finance Officer

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements. The Director of Corporate Resources is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

You have not brought to our attention any potential misstatements in the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Councillor Trevor Clarke
Signed on behalf of the Council

Appendix D: Draft independent auditor's report

The following draft independent auditor's report covers the Council's Statement of Accounts.

Independent auditor's report to the Members of Medway Council

Opinion on the Council's accounting statements

We have audited the accounting statements of Medway Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

This report is made solely to the members of Medway Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts, that includes the accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the Foreword by the Chief Financial Officer and the Statement of Accounts to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of Medway Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on other matter

In our opinion, the information given in the Foreword by the Chief Financial Officer and the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

Respective responsibilities of the Council and auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Medway Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

We certify that we have completed the audit of the accounts of Medway Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature:

....
Robert Grant
for and on behalf of PKF (UK) LLP
London, UK
November 2011

Appendix 2

MEDWAY COUNCIL

STATEMENT OF ACCOUNTS

2010/2011

Contents **Pages**

A EXPLANATORY FOREWORD

Introduction

The Statement of Accounts summarises the Council's income and expenditure for the year and its financial position as at the year end. The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003. The format of the accounts reflects the new requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011: Based on International Financial Reporting Standards, published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code introduces further changes to the format of the Statement of Accounts following the partial introduction of International Financial Reporting Standards (IFRS) in 2009/2010. Major changes from the 2009/2010 accounts, produced under UK GAAP principles, are explained where appropriate and comparative figures for that year have been restated in accordance with IFRS. The impact of the adoption of IFRS on the comparative figures for 2009/2010 is summarised in Section I of the Statement of Accounts.

Statement of Accounts

The statements which follow summarise the Council's accounts for the financial year ended 31 March 2011. Further explanation of the purpose of each statement is included within the relevant section and notes explaining transactions follow the statements where appropriate. The main statements are:

- **Statement of Responsibilities** – outlines the responsibilities of the Council and the Chief Financial Officer in preparing the accounts. The Chief Financial Officer has to certify that the accounts present a 'true and fair view' of the financial position of the Council as at 31 March 2011 and its expenditure and income for the year.

- **Statement of Accounting Policies** – these are the specific principles, bases, conventions, rules and practices adopted by the Council in preparing and presenting financial statements.

- **Annual Governance Statement** - This statement explains how the Council has complied with the code CIPFA/SOLACE *Framework for Delivering Good Governance in Local Government*. and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a governance statement.

- **Movement in Reserves Statement** – this summarises the movement in the year on the various reserves held by the Council.

- **Comprehensive Income and Expenditure Statement** – this shows the costs of the various services the Council provides.

- **Balance Sheet** – this summarises the Council's financial position at the year end. It provides details of the assets and liabilities held by the Council and the usable and unusable reserves held at the balance sheet date.

- **Cash Flow Statement** – this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

- **Housing Revenue Account** – this is the separate statutory account for income and expenditure relating to council housing.

- **Collection Fund** – this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and the associated payments to precepting authorities and to the National Non Domestic Rate (NNDR) Pool.

Review of Finance 2010/2011

The following sections summarise the major financial transactions of the Council. Further information is included within the notes to the relevant financial statements.

Revenue

To achieve breakeven against budget, the required contribution from reserves was £1.509m, compared to the planned contribution of £4.047m. a reduction of £2.538m.

The table below summarises the income and expenditure for each directorate of the Council for 2010/2011.

Directorate	Expenditure £'000	Income £'000	Net £'000	Budget £'000	Variation £'000
Business Support Department	173,795	(156,728)	17,067	17,540	(473)
Children & Adult Services	398,977	(112,961)	286,016	288,492	(2,476)
Regeneration, Community & Cultural Services	109,003	(36,143)	72,860	73,537	(677)
Public Health	1,328	(927)	401	403	(2)
Sub-total Services	683,103	(306,759)	376,344	379,972	(3,628)
Levies	906	0	906	900	6
Depreciation Credit	0	(33,943)	(33,943)	(33,943)	0
Interest & Financing	19,899	(4,130)	15,769	15,358	411
Planned Use of Reserves	0	(1,509)	(1,509)	(4,047)	2,538
Dedicated Schools Grant	0	(158,345)	(158,345)	(158,345)	0
Use of Collection Fund Surplus	0	(310)	(310)	(983)	673
	703,908	**(504,996)**	**198,912**	**198,912**	**0**
Funded:-					
Area Based Grant				16,199	
RSG				10,794	
NNDR Redistribution				74,336	
Council Tax				97,583	
				198,912	

The outturn on the Housing Revenue Account (HRA) was a surplus £1,240,912 (2009/2010 surplus £823,999), compared to a budget of £1,243,000 (2009/2010 budget £206,000). Reorganisation costs of £211,825 were charged direct to the HRA reserve which, having taken account of the 2010/11 surplus, stands at £6,155,894 as at 31 March 2011 (£5,126,807 as at 31 March 2010).

Capital

The Council's capital investment in 2010/2011 was £79,949,000 (2009/2010 £63,404,000). The expenditure was within the definition of the Local Government and Housing Act 1989.

Capital Expenditure has been financed from the following sources: -

- Supported Capital Expenditure (Revenue) and Prudential borrowing (£13,895,000);

- Grants or contributions from Government bodies or other agencies and organisations (£60,092,000);

- Part proceeds from the sale of capital assets or the repayment of advances, the usable part, following pooling of HRA capital receipts (£5,751,000);

- Contributions from the Revenue Account and specific reserves (£211,000).

The Council spent £48,259,000 on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included a number of integrated transport measures, a programme of improvements to the Council's housing stock, the provision of new classrooms and improvements to school infrastructure. The remainder of capital expenditure is split between capital works in progress £3,763,000 and £27,927,000 relating to "Revenue Expenditure Funded from Capital under Statute" (formerly deferred charges). (see Statement of Accounting Policies 25).

Capital expenditure incurred by the Council in 2010/2011 is summarised below:

Directorate	**Total Programme £'000**	**2010/2011 Forecast £'000**	**Outturn £'000**	**Variation £'000**
Business Support	16,826	7,968	7,769	(199)
Children and Adult Services	51,725	23,607	27,115	3,508
Regeneration, Community & Culture	64,645	47,519	45,064	(2,455)
Total	**133,197**	**79,095**	**79,949**	**854**

The capital programme for 2011/2012 and beyond reflects the major investment priorities of the Council which are as follows:

Regeneration of Chatham including the Dynamic Bus Facility, the Local Transport Plan including improvements to the A228, Quality Bus Corridor; investment in the Council's housing stock and investment in schools, especially primary and academies, to support delivery of high standards of education.

- **Borrowing/Investments**

During 2010/2011 the level of debt, i.e. money that the Council owes decreased by £25,303,000 from £202,034,000 to £176,731,000. This is due to the current strategy of financing capital from investment balances rather than new debt. Additionally as debt falls due for repayment it is not being replaced, whilst interest rates are low.

The level of investments has subsequently decreased from £89,059,000 to £69,526,000 primarily due to the above strategy.

- **Fixed Assets**

The total value of the Authority's fixed assets has decreased in 2010/2011 by approximately £68 million. Although there was capital investment of some £48m, there was a greater decrease in the value of all classes of as0sets as a result of revaluation, impairment, depreciation and disposals.

B STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets and

- approve the statement of accounts.

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied then consistently;

- made judgements and decisions that were reasonable and prudent; and

- complied with the Code of Practice.

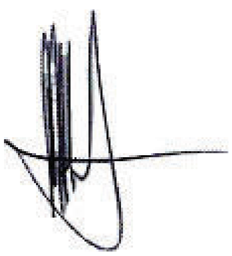
The Chief Finance Officer has also:

- kept proper accounting records which were up to date; and

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Chief Finance Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.



Mick Hayward
Chief Finance Officer 28 June 2011

C Independent auditor's report to the Members of Medway Council

Opinion on the Council's accounting statements

We have audited the accounting statements of Medway Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

This report is made solely to the members of Medway Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts, that includes the accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the Foreword by the Chief Financial Officer and the Statement of Accounts to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of Medway Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on other matter

In our opinion, the information given in the Foreword by the Chief Financial Officer and the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

Respective responsibilities of the Council and auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Medway Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

We certify that we have completed the audit of the accounts of Medway Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

....
Robert Grant
for and on behalf of PKF (UK) LLP
London, UK

November 2011

D ANNUAL GOVERNANCE STATEMENT 2010/2011

1. Scope of responsibility

Medway Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having a regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council approved a local code of corporate governance at its meeting on 13 November 2008, and this is consistent with the principles of the CIPFA/SOLACE *Framework for Delivering Good Governance in Local Government*. A copy of the current Code is on our website at www.medway.gov.uk and can also be obtained from the Monitoring Officer at Medway Council, Gun Wharf, Dock Road, Chatham (01634) 332133.

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a governance statement.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

The following section of the statement summarises Medway Council's governance framework that has been in place for the year ended 31 March 2011 and up to the date of approval of this Statement. The framework described reflects the arrangements in place to meet the six core principles of effective governance.

3. The Council's framework for ensuring compliance with the core principles of effective governance

(a) Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area

The council works with its partners through the Local Strategic Partnership to set the vision and priorities for the area. The council manages, on behalf of the LSP, a process of bringing together performance data, demographic information and consultation findings to determine key shared priorities.

Medway's sustainable community strategy for 2010-26 was approved by the LSP board in March and full Council in April 2010. This sets the medium to long term strategic framework for the area.

The council's well established 'framework for managing performance' at Medway Council sets out how the community strategy helps to inform and shape the council's own priorities.

In 2011 the council again produced the council plan, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2011 the council refreshed the council plan to agree the version for 2010-13. The plan was informed by consultation including the 2010 residents opinion poll. It forms an essential part of the council's governance framework, setting out the council's priorities and the measures against which success will be judged.

(b) *Members and Officers working together to achieve a common purpose with clearly defined functions and roles.*

The Council has ensured that the necessary roles and responsibilities for its governance are identified and allocated so that it is clear who is accountable for decisions that are made. The Council has done this by:

- Appointing a four year Leader of the Council, and executive Members (Cabinet Members), with defined executive responsibilities, including appointing a lead member for Children’s Services, with responsibility for making sure the statutory functions for Children’s Services are carried out.
- Agreeing a scheme of delegated executive responsibilities to directors and senior officers, and protocols that make clear the respective roles of Members and officers and ensure effective communication between them.
- Annually appointing committees to discharge the Council’s regulatory responsibilities
- Annually appointing committees to discharge the Council’s overview and scrutiny responsibilities
- Setting clear role definitions for chairs of committees and councillors in their different roles
- Ensuring that the Constitution is regularly reviewed
- Making the Chief Executive (the Head of Paid Service) responsible and accountable to the Council for all aspects of operational management.
- Making a senior officer (the Monitoring Officer) responsible to the authority for ensuring the lawfulness and fairness of decision-making, and that agreed procedures are followed and that all applicable statutes and regulations are complied with.
- Making a senior officer (the Section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.
- Making a senior officer responsible to the authority for ensuring that the statutory functions of children’s services and adults services are carried out

- Ensuring significant partnerships and contracts with other public bodies, voluntary and community organisations, and the private sector have clear governance accountabilities, including effective and equitable financial arrangements
- Having in place effective and comprehensive arrangements for the scrutiny of services including a Scrutiny Officer

(c) ***Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour***

The Council promotes and maintains high standards of ethical conduct of members and officers through the work of its Standards Committee. The Council fosters a culture of behaviour based on shared values, ethical principles and good conduct.

The Council has done this by establishing and keeping under review:

- The Council's Constitution
- A Members' Code of Conduct
- An Officers' Code of Conduct
- A protocol governing Member/Officer Relations
- A Members' Planning Code of Good Practice
- A Members Licensing Code of Good Practice
- Monitoring Officer Protocol
- Media Guidelines
- Contract Standing Orders and Financial Regulations

The Monitoring Officer is responsible for the review of the constitution, and for ensuring that it is kept up to date.

Conduct of Members is monitored by the Standards Committee, which also investigates allegations of misconduct by Members. The Council's Standards Committee has always had an independent chairman, and it has a total of six independent members. The Standards Committee has produced an annual report of its work for 2010/11, which was considered by the Council in April 2011. The Committee has also introduced guidance on ward work, and member use of council resources.

The Council takes fraud and corruption very seriously and has the following policies that aim to prevent or deal with such occurrences:

- An anti-fraud and corruption policy
- A whistle blowing policy

The outcome of complaints made under the whistle blowing policy is reported to the Audit Committee on an annual basis, in order that they can keep it under review. This has recently been refreshed and strengthened by the Council, and the Monitoring Officer has responsibility for reporting all whistle blowing, including data protection breaches, to Members.

(d) ***Taking informed and transparent decisions which are subject to effective scrutiny and managing risk***

The Council has ensured that the decision-making process includes a rigorous risk assessment including:

- Financial, legal and staffing implications
- Diversity and racial impact assessment
- Risks, mitigations and opportunities

All reports to the Council or Cabinet are checked by the Chief Finance Officer and the Monitoring Officer for financial and legal implications. The Council has been rigorous and transparent about how decisions are taken and recorded. Cabinet reports now also include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.

The Council has:

- Ensured the Cabinet make decisions in an open and transparent way and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that all decisions of regulatory committees of the Council are made in public and that information relating to those decisions is made available to the public, unless statutory rules allow otherwise
- Ensured that legal, financial and risk implications are recognised in all reports on which decisions are based
- Recorded all decisions that are made by committees.
- Rules and procedures, which govern how decisions are made.
- Developed and maintained an effective overview and scrutiny function which encourages constructive challenge
- Maintained an effective Standards Committee and Audit Committee

The Council has continued to develop its risk management strategy to enable the Council to manage and control risks in order to maximise the quality of its service provision and uphold its reputation, making a powerful contribution to continuous service improvement and the achievement of best value. The strategy is reviewed annually.

The Council has ensured that under the risk management system:

- Officers formally identify and manage risks
- Elected Members are involved in the risk management process
- A risk assessment of every key or strategic decision is undertaken
- Risks to financial and other key internal controls are mapped
- Business continuity planning is reflected; and
- The Cabinet reviews and, if necessary, updates its risk management processes at least annually
- Detailed risk assessment of budgets are carried out with signed acceptance form from managers highlighting risk areas

(e) ***Developing the capacity and capability of Members and officers to be effective.***

The Council has ensured that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well.

The Council has done this by:

- Retaining the Member Development Charter
- Developing leadership skills and capacity across the Council through an annual learning and development programme for staff
- Ensuring that the Chief Finance Officer and Monitoring Officer are both members of the Corporate Management Team
- Developing our approach to workforce planning
- Obtaining Gold status for Investor in People accreditation across all directorates
- Encouraging quality mark accreditation for services
- Maintaining and developing our personal development review system
- Cascading regular information to Members and staff by paper and electronic means, having regard to diversity issues
- Holding a full induction programme for all members to attend

(f) *Engaging with local people and other stakeholders to ensure robust public accountability.*

The Council is committed to increasing public involvement in decision-making and devolving power to individuals and local organisations. We have sought and responded to the views of stakeholders and the community. The Council has done this by:

- Improving effective corporate consultation including maintaining effective mechanisms for ongoing engagement eg community cohesion group, Children in Care Council, Young Commissioners, Learning Disability Partnership Board, Tenants Forums, Medway Ambassadors Scheme and community profiling in Luton
- Carrying out in depth consultation exercises as required to inform policy development and service change – eg Maintaining effective data exchange through the Corporate Research and Information Group to plan and coordinate consultation and to share findings
- Making use of local forums at ward, parish and neighbourhood level to maintain communication with all the Council's communities and other stakeholders e.g. rural liaison committee with parishes, community futures workshops in our most deprived areas to inform the development of community owned action plans, participation in Partner and Communities Together (PACT) meetings
- Maintaining and reviewing an effective complaints procedure

4. Review of effectiveness

Medway Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the Corporate Management Team who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Authority has responsibility for conducting at least annually a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the internal auditors, the corporate management team, the Chief Finance Officer, the Monitoring Officer and by comments made by the external auditors and other review agencies and inspectorates.

Throughout 2010/11 the Council has received and considered a number of reports including:-

(a) Sustainable Community Strategy 2010-16
(b) Changes to the Executive arrangements under the Local Government & Public Involvement in Health Act 2007
(c) The annual report of the Monitoring Officer
(d) Exemptions to standing orders
(e) Statement of Accounts 2009/10
(f) Budget report 2011/12 and Medium Term financial strategy
(g) Addressing in year grant reductions
(h) Appointment of a Scrutiny Officer
(i) Review of the Council's procurement processes
(j) Petitions Scheme

Cabinet has considered and approved a number of reports in its role as the executive:-

(a) Revenue budget monitoring
(b) Capital programme monitoring
(c) Annual performance assessment of adult social care
(d) Children's Services assessment
(e) Annual Audit Letter 2010
(f) Six monthly review of the risk register
(g) Annual Review of the Risk Management Strategy
(h) Medium Term Financial Plan
(i) Statement of Accounts
(j) Report on Woodlands School

The Audit Committee have considered a wide variety of issues including:-

(a) Annual review of the whistle blowing policy to include breaches of data protection
(b) Internal Audit Annual Plan 2010/11
(c) Audit Commission Audit and Inspection Plan
(d) Annual Governance Statement
(e) Report on Woodlands School

The Standards Committee have considered a number of issues relating to members, in particular have had a larger number of referrals for the year 2010/11. A further round of training for members was provided as part of the induction process in May 2011 and all members were invited.

An annual review of the code of corporate governance checks the control environment within the two directorates and the business support department, and the results of this review has been used to inform our assessment of significant control issues for the Council.

The following is an extract from the Head of Internal Audit's annual report for 2010/11.

> "Key Financial Systems – 4 out of the 7 key systems examined had opinions of good or satisfactory (Appendix A). However 3 of the systems audited were assessed as 'Insufficient', exhibiting weaknesses in debt recovery processes (including creditor/salary

overpayments) and the current work on the Care Director system has raised concerns that similar issues exist there too. No other significant issues have arisen to date on the audits that are still in progress.

Corporate Governance – Our audit work has confirmed that this is satisfactory.

Risk Management – Our audit work has confirmed that this is satisfactory.

Fraud & Prevention of Corruption – Our audit work has found this to be Insufficient (i.e. Controls are in place to mitigate identified risks and they are complied with to varying degrees. However, there are one or more gaps in the control process that leave the system exposed to significant residual risk. Action is required to mitigate material risks.)

Internal audit reviews the effectiveness of controls to minimise risk and the results of these are reported to the Audit Committee together with any action plan to address risks.

The Council also undertakes an annual review of corporate governance. The detailed findings indicate that, in general, Medway's Constitution, political and management structure and decision-making processes address the requirements of the revised CIPFA/SOLACE framework and demonstrate the Council's commitment to openness and transparency. The six core principles set out in the CIPFA/SOLACE framework were assessed as "satisfactory".

Assurances have been provided from the Corporate Management Team that key elements of the control framework were in place during the year in their divisions and control weaknesses were identified and addressed.

5. Governance: Key Areas of Focus

In September 2010 the Cabinet and Audit Committee received a report from the Monitoring Officer on Woodland School and its procurement of an extension to the school buildings. The report highlighted weaknesses in rigorous oversight of the project by the Council, principally in the Learning and Achievement division, which led to a significant overspend. In order to address the control weaknesses by ensuring that robust procedures are in place, the Cabinet has set up a cabinet advisory group, chaired by the Portfolio Holder for Children's Services, which will assist the Cabinet to monitor capital schemes in the Children's and Adults Directorate.

In 2010/11 we identified a number of areas where employee fraud had taken place and reports were brought to the Audit Committee. We have commissioned PKF, our external auditors, to check our internal systems to ensure that our anti-fraud and corruption measures are robust and we will implement any findings from their report.

Homes and Communities Agency funding of £37m was allocated for regeneration work in Medway (2008 - 11). A small number of schemes remain to be completed but all are nearing completion. Work is on-going to quantify the likely total spend but funding is received once work is completed, sometimes several months in arrears and our claims have not all been submitted. The accounts as of 31 March 2011 accurately reflect the situation at that time that the total expenditure for all projects was inside approved budgets. Should any overspend materialise as projects are completed these will be investigated and a report brought to Audit Committee and Cabinet

The Authority faces an extremely challenging year in 2011/12 as it seeks to manage significant budget reductions, increasing demand for some services and new ways of working, whilst ensuring it complies with its statutory duties. The following represent the key issues to be addressed in relation to significant governance issues:-

(a) A significant reduction in Government grant funding for 2011/12 totalling £20.6m. The Council has plans in place to respond to this challenge but the budget reductions in 2011/12 will require careful monitoring and immediate action if they fall behind during implementation.

(b) Better for Less, the Council's transformation programme, is ongoing and in 2011/12 we will move into the implementation phase to improve our customer contact and administration across the Council. The programme is challenging and ambitious and will deliver substantial savings to the Council of £13.9M (cumulative), as well as transforming and improving our services.

6. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year 2010/11 although we recognise the areas for additional focus identified in section 5.

We are satisfied that these enhancements will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

……………………………………….
Leader of the Council

………………………………………..
Chief Executive

E STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011. The Code is based on approved accounting standards, comprising International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS's) approved by the International Accounting Standards Board. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council is required to disclose information relating to the impact of any accounting policy change that will be required by a new standard that has been issued but not yet adopted. The 2011/2012 Code introduces new requirements relating to FRS 30 Heritage Assets. The financial statements should set out the Council's policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the Council of its collection of heritage assets and information on the extent to which access to the assets is permitted. The accounting policies relating to heritage assets should be stated, including details of the measurement bases used. For heritage assets that are not reported in the balance sheet, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the balance sheet. The Heritage assets held by Medway Council have been estimated at a value of £12,563,000.

2. Qualitative Characteristics of Financial Statements

- **Understandability** - although a reasonable knowledge of accounting and local government is assumed, all reasonable steps have been taken to ensure that the financial statements are as comprehensible as possible.
- **Relevance** - the objective of the financial statements is to provide information on the Council's financial position, performance and cash flow that is useful for assessing the stewardship of public funds and for making economic decisions.
- **Materiality** – omissions or misstatemens of items are only material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.
- **Reliability** - financial information can be depended upon to represent faithfully the substance of the transactions and other events that have taken place. The information is free from bias, free from material error, is complete within the bounds of materiality and cost and has been prepared in a prudent manner.
- **Comparability** - the Statement of Accounts contains prior year information to enable comparisons to be made.

3. Accounting Concepts

The following underlying assumptions are made in the preparation of the Council's accounts:

- **Accrual basis** - the financial statements, except the Cash Flow Statement, have been prepared on an accrual basis. The accrual basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

- **Going Concern** – the financial statements have been prepared on a going concern basis. It is assumed that the functions of the Council will continue in operation for the foreseeable future.

4. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. Exceptions to this are payments of regular quarterly accounts (e.g. telephones, electricity, ICT contracts for software and hardware) and Penalty Charge Notice income. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

5. Capital Grants Received in Advance

The Council receives funds from property developers to provide education, highway and other community assets as part of their development. These funds are held for periods of time as specified within the planning consent and used to provide and or maintain those assets.

6. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. IAS 7 indicates that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Monies held by the Council's investment managers are classified as investments.

7. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are charged with depreciation attributable to the asset used by the relevant service and revaluation and impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which losses can be written off.

Depreciation and impairment losses have no effect on council tax levels as compensating adjustments are made between the General Fund and the Capital Adjustment Account. However, the Council is required to make annual contributions from revenue towards the repayment of debt. Notional interest is not charged to services but actual interest payable on outstanding borrowings, including interest payable under finance leases is charged directly to the Comprehensive Income and Expenditure Statement.

8. Customer and Client Receipts

With the exception of some income, e.g. car park penalty charge notices which is recorded on a cash basis, income is accrued and accounted for in the period to which it relates. Provision is made for doubtful debts and known uncollectible debts are written off.

9. Employee Benefits

Three categories of employee benefits exist under the 2010/2011 Code:

Benefits payable during employment

Covers short-term employee benefits, such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as expenses in the year in which the employee renders service to the council. Accruals are made for holiday entitlements etc. but these sums are reversed out through the Movement in Reserves Statement. This category of benefits also includes those earned by current employees but payable twelve months or less after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Termination benefits

Covers amounts that are payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments but also include salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the Council. Redundancy and other termination costs are accrued to the year that the notice is served.

Post Employment Benefits

Employees of the Authority are members of two separate pension scheme. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- The Council contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

- The Local Government Pensions Scheme is administered by Kent County Council. The liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

  The assets of Kent pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

  - quoted securities – current bid price
  - unquoted securities – professional estimate

- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

- contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements but since 6 January 2007 has ceased to award additional service in the event of early retirement on other than ill-health grounds. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

10. Estimation Techniques

Significant estimates are involved in the calculation of some parts of the Council's accounts. These include the calculation of the pension assets and liabilities by the fund's actuary, the valuation of non-current assets, the provision for bad and doubtful debts and the calculation of embedded leases. Details of each of these are shown in the relevant notes to the principal financial statements.

11. Events After the Balance Sheet Date

These are events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue. Events arising between the Balance Sheet date and final approval of the Statement of Accounts will be reflected in the statements if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts reported. Where conditions arose after the Balance Sheet date the Statement of Accounts is not adjusted to reflect such events but, where material, disclose is made by way of a note to the accounts.

Those that provide evidence of conditions that existed at the end of the financial year – the Statement of Accounts is adjusted to reflect such events;

12. Exceptional Items

Where material, items of income and expenditure are disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts.

13. Financial Instruments

Financial Assets

The Council's financial assets (investments) are classified into Loans and Receivables - assets that have fixed or determinable payments but which are not quoted in an active market Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments and Fair value through profit or loss, these are financial instruments that are actively being traded in order to make a profit rather than holding to obtain the yield, these are all managed by our Fund Manager. Financial assets are maintained in the Balance Sheet at fair value.

Loans and receivables – are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council has made a small number of loans to eligible employees, for the purchase of motor vehicles for example and charitable organisations at less than market rates (soft loans). The value of these loans has been considered to be immaterial and the calculation of the present value of interest foregone, required by the Code, has not been undertaken.

Available-for-Sale Assets– these have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the balance sheet at fair value using determinations from independent experts.
Fair Value through profit or loss – these are financial instruments that are held for trading in order to make a short term profit. This would be as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit taking.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

14. Foreign Currency Transactions

When foreign currency transactions occur the Council will convert the amount received or paid to the prevailing sterling amount as at the date of the transaction.

15. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and

- the grants or contributions will be received.

Government grants and third party contributions and donations to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied or there is reasonable assurance that they will be met. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Capital grants received where no conditions exist will be credited to the Comprehensive Income and Expenditure statement in the year of receipt. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement when applied to finance capital expenditure or to the capital Grant Unapplied Account.

Capital grants, where conditions exist, and capital contributions (such as Section 106 Developer Contributions) received will be credited to the Comprehensive Income and Expenditure Account in the year that the capital expenditure is incurred. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

16. Investment Property

Investment property (land and/or buildings) are used solely to earn rental income or for capital appreciation or both. The Council's major investment property is Gillingham Business Park, which is let on a long lease. Investment properties are not depreciated but are revalued annually according to market conditions at the year end.

17. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. A right to use an asset in return for payment may be subject to this lease policy even though a formal lease agreement may not exist.

Finance Leases

As lessee, the Council records finance leases as assets and liabilities at amounts equal to the fair value of the property plant or equipment or, if lower, the present value of the minimum lease payments. Lease payments shall be apportioned between the finance charge (interest) and the reduction of the outstanding liability. The Council will recognise assets under finance leases in the balance sheet at an amount equal to the net investment of the lease.
Assets recognised under a finance lease shall be depreciated. The depreciation policy for leased assets shall be consistent with the policy for owned assets. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset shall be depreciated over

the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

Operating Leases

Lease payments under an operating lease are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from the use of the asset. Charges are recorded on a straight-line basis over the lease term unless another basis is more representative of the benefits received by the Council.

Embedded Leases

These are assets that although not owned by the Council are used primarily by the authority for service provision. Examples are vehicles used by the Council's highways maintenance and waste contractors. In these cases estimated values for the vehicles have been used along with a leased term in line with the contract period. Assets are recognised in the balance sheet at the net book value and offset by a deferred liability. The lease charge forms part of the contract payment on behalf of these vehicles on a straight-line basis over the life of the asset. These assets are depreciated in line with our normal capital policy.

18. Overheads and Support Services

In accordance with the CIPFA Best Value Accounting Code of Practice 2010/2011 (BVACOP), all overheads not defined as Non Distributed Costs are fully recharged to service expenditure. Unapportionable Central Overheads, which are clearly defined in the Code, together with Democratic Representation and Management and Corporate Management Costs, are service expenditure headings in their own right, to which overheads have been allocated, and are not apportioned further.

19. Prior Period Adjustments, Changes in Accounting Policy and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates will be accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where changes is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior year period as if the new policy had always been applied.

Material errors discovered in prior year periods are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

20. Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition
Expenditure, generally above the de-minimis level of £25,000 on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided

that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:
- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are carried in the Balance Sheet using the following measurement bases:
- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction). Depreciation is charged in the year of disposal and not in the year of acquisition.

Deprecation is calculated on the following bases:
- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

21. Provisions, Contingent Liabilities and Contingent Assets

Provisions – are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made, but where the timing of the transfer is uncertain. For instance, the Council may be involved in an insurance claim that could eventually result in the making of a settlement or the payment of compensation. The specific purposes of the Council's provisions are explained in a note to the principal financial statements.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Contingent Liabilities – arise when an event occurs that gives the Council a possible financial obligation that may or may not be incurred depending on the outcome of a future event such as a court case. Contingent liabilities also arise in circumstances where a provision would ordinarily be made but either it is unlikely that expenditure will be required or the amount of the obligation cannot be reliably measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed as a note to the accounts.

Contingent Assets – arise when an event has taken place that gives the Council a possible asset that may or may not be confirmed depending on the outcome of a future event not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed as a note to the accounts.

22. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the notes to the principal financial statements.

23. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets, for example, disabled facilities grants, has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

24. VAT

VAT payable (for both revenue and capital) is included in the accounts as an expense only to the extent that it is not recoverable from the Government. The Council is able to recover VAT on nearly all its expenditure. VAT receivable is excluded from income as it is all payable to HM Revenue and Customs.

F PRINCIPAL FINANCIAL STATEMENTS

Figures for 2009/2010 have been restated, where appropriate, to reflect the requirements of the new International Financial Reporting Standards. Explanations of major changes accompany each statement.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce council tax) and other reserves. The surplus/(deficit) on the Provision of Services line shows the true economic cost of providing council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax and rent setting purposes, respectively. The net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

A summary of the purpose of each reserve is as follows:

General Fund Balance – This is the 'working balance' of the Council and acts as a contingency to fund unforeseen eventualities.

General Reserve – This is the available, non-earmarked reserve of the Council and can be utilised to support revenue or capital expenditure at the Council's discretion.

Schools Balances – Schools are allowed to carry forward, from one year to the next, any shortfall in expenditure relative to the school's budget share for the year, plus or minus any balance brought forward from previous years. These surpluses can only be used for purposes that benefit pupils under delegated powers.

Earmarked General Fund Reserves – These are reserves created to fund specific revenue or capital expenditure.

Housing Revenue Account – This reserve contains any surplus or deficit arising from the provision of council housing by the Council. It can only be used for local authority housing provision.

Capital Receipts Reserve – Proceeds from the sale of Council assets are paid into this reserve which can be used to finance capital expenditure or repay debt.

Major Repairs Reserve –This reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account and can only be used to fund major Housing Revenue Account repairs.

Insurance Fund – This reserve includes sums held to meet potential and contingent liabilities in respect of insurance claims.

Capital Grants Receipts in Advance – This reserve contains Government grants and other contributions which are held to finance future capital expenditure.

Unusable Reserves – The major reserves included in this category are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the Council. They are explained in more detail in note 15.

Movement in Reserves Statement for the years Ending 31 March 2010 and 31 March 2011

	Notes	General Fund Balance	General Reserve	Schools Balances	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Insurance Fund	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Restated Balance as at 1 April 2009		**9,500**	**3,263**	**5,850**	**8,295**	**4,303**	**4,719**	**2,840**	**2,152**	**12,132**	**53,054**	**611,113**	664,167
Movement in Reserves 2009/2010													
Surplus/(Deficit) on provision of services		(26,310)	0	0	0	(37,545)	0	0	0	0	(63,855)	0	(63,855)
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	0	0	0	(103,012)	(103,012)
Total Comprehensive Income and Expenditure		**(26,310)**	**0**	**0**	**0**	**(37,545)**	**0**	**0**	**0**	**0**	**(63,855)**	**(103,012)**	**(166,867)**
Adjustments between accounting & funding bases under regulations	1	30,536	0	0	0	38,882	(4,012)	(2,702)	0	11,892	74,596	(89,791)	(15,195)
Net Increase/decrease before transfer to Earmarked Reserves		**4,226**	**0**	**0**	**0**	**1,337**	**(4,012)**	**(2,702)**	**0**	**11,892**	**10,741**	**(192,803)**	**(182,062)**
Transfers to/from Earmarked Reserves	2	(3,726)	3,848	(620)	1,173	(512)	1,092	501	(464)	2,812	4,104	0	4,104
Increase/(Decrease) in Year		**500**	**3,848**	**(620)**	**1,173**	**825**	**(2,920)**	**(2,201)**	**(464)**	**14,704**	**14,845**	**(192,803)**	**(177,958)**
Balance at 31 March 2010		**10,000**	**7,111**	**5,230**	**9,469**	**5,128**	**1,799**	**639**	**1,688**	**26,836**	**67,899**	**418,310**	**486,209**
Movement in Reserves 2010/2011											0		
Surplus/(Deficit) on provision of services		53,178	0	0	0	(32,692)	0	0	0	0	20,486	0	20,486
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	0	0	0	85,928	85,928
Total Comprehensive Income and Expenditure		**53,178**	**0**	**0**	**0**	**(32,692)**	**0**	**0**	**0**	**0**	**20,486**	**85,928**	**106,414**
Adjustments between accounting & funding bases under regulations	1	(46,364)	0	0	0	33,725	(6,157)	378	0	(295)	(18,712)	(4,667)	(23,380)
Net Increase/decrease before transfer to Earmarked Reserves		**6,814**	**0**	**0**	**0**	**1,033**	**(6,157)**	**378**	**0**	**(295)**	**1,774**	**81,261**	**83,034**
Transfers to/from Earmarked Reserves	2	(6,814)	(982)	1,972	1,154	(5)	4,436	0	407	7,160	7,328	0	7,328
Increase/(Decrease) in Year		**0**	**(982)**	**1,972**	**1,154**	**1,028**	**(1,721)**	**378**	**407**	**6,865**	**9,101**	**81,261**	**90,362**
Balance at 31 March 2011		**10,000**	**6,129**	**7,202**	**10,623**	**6,156**	**78**	**1,017**	**2,095**	**33,701**	**77,001**	**499,571**	**576,571**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated 2009/2010					2010/2011		
Gross Exp £'000	Gross Inc £'000	Net Exp £'000	Service	Notes	Gross Exp £'000	Gross Inc £'000	Net Exp £'000
3,616	(1,526)	2,090	Central services to the public		3,888	(1,742)	2,146
73,186	(27,024)	46,162	Cultural, environmental, regulatory and planning services		78,631	(27,733)	50,899
340,330	(237,165)	103,165	Education and children's services		326,446	(251,099)	75,347
36,435	(12,045)	24,390	Highways and transport services		43,497	(13,440)	30,057
48,287	(11,646)	36,641	Local authority housing (HRA)		44,068	(11,897)	32,171
122,918	(114,540)	8,378	Other housing services		128,675	(113,827)	14,848
92,281	(29,675)	62,606	Adult social care		91,838	(27,623)	64,215
16,473	(3,322)	13,151	Corporate and Democratic core		9,095	(1,644)	7,451
31,902	(31,990)	(88)	Non-distributed costs		32,044	(85,373)	(53,329)
765,429	**(468,934)**	**296,495**	**Net Cost of Services**		**758,183**	**(534,378)**	**223,805**
704	0	704	Other operating expenditure	3	1,729	0	1,729
21,129	(3,843)	17,286	Financing and investment income and expenditure	4	20,181	(2,199)	17,982
0	(250,629)	(250,629)	Taxation and non-specific grant income	5	0	(264,001)	(264,001)
		63,855	**(Surplus)/Deficit on Provision of Services**				**(20,485)**
		(29,525)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment				(464)
		132,537	Actuarial (gains)/losses on pension assets/liabilities	32			(85,464)
		103,012	**Other Comprehensive Income and Expenditure**				**(85,928)**
		166,867	**Total Comprehensive Income and Expenditure**				**(106,412)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.

Balance Sheet Summary	Notes	31 March 2011 £'000	31 March 2010 Restated £'000	31 March 2009 Restated £'000
Property Plant and Equipment	6	874,549	909,883	970,734
Investment Property	7	5,735	5,916	5,854
Long Term Investments	8	4	10,004	20,004
Long Term Debtors	8	762	788	882
Long Term Assets		**881,050**	**926,591**	**997,474**
Short Term Investments	8	52,599	22,237	112,340
Inventories		130	152	144
Short Term Debtors	9	52,371	61,579	51,211
Cash and Cash Equivalents	11	20,620	56,757	3,677
Assets Held for Sale	12	1,845	3,748	2,668
Current Assets		**127,565**	**144,473**	**170,040**
Cash and Cash Equivalents	11	0	0	0
Short Term Borrowing	8	(11,659)	(26,895)	(52,351)
Short Term Creditors	10	(55,650)	(57,947)	(55,731)
Current Liabilities		**(67,309)**	**(84,842)**	**(108,082)**
Long Term Creditors	8	(47,746)	(49,709)	(52,006)
Provisions	13	(3,274)	(2,941)	(1,735)
Long Term Borrowing	8	(165,072)	(175,139)	(200,260)
Other Long Term Liabilities	8	(140,821)	(266,322)	(133,121)
Capital Grants Receipts in Advance		(7,822)	(5,901)	(8,143)
Long Term Liabilities		**(364,735)**	**(500,012)**	**(395,265)**
Net Assets		**576,572**	**486,210**	**664,167**
Usable Reserves	14	77,001	67,900	53,054
Unusable Reserves and Statutory Adjustment Accounts	15	499,575	418,310	611,113
Total Reserves		**576,572**	**486,210**	**664,167**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Council

2009/10 £'000		2010/11 £'000
63,855	Net (Surplus) or deficit on the provision of services	(20,485)
(130,990)	Adjustments to net Surplus or deficit on the provision of service for non-cash movements	(29,506)
59,839	Adjustments for items included in the net Surplus or deficit on the provision of service that are investing or financing activities	64,169
(71,151)	Net cash flows from Operating Activities (Note 16)	34,663
(96,337)	Investing Activities (Note 17)	(3,233)
50,553	Financing Activities (Note 18)	25,192
(53,080)	**Net (increase) or decrease in cash and cash equivalents**	**36,137**
3,677	Cash and cash equivalents at the beginning of the reporting period	56,757
56,757	**Cash and cash equivalents at the end of the reporting period (Note 11)**	**20,620**

G NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

1. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments made to the comprehensive income and expenditure recognised by the Council in accordance with proper accounting practice to the resources that are specified by statute as being available to the Council to meet future revenue and capital expenditure.

	Usable Reserves					
Adjustments for 2010/2011	**General Fund Balance**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Adjustments primarily affecting the Capital Adjustment Account						
Depreciation and Impairment	33,551	2,239				(35,790)
Revaluation Losses	2,597	34,070				(36,667)
Capital Grants & Contributions Applied	(60,867)				(295)	61,162
Revenue Expenditure Funded from Capital Under Statute	28,631					(28,631)
Derecognition & other adjustments						(22,682)
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	(7,838)					7,838
Voluntary provision above MRP						0
Revenue contribution to finance capital	(917)					917
Adjustments primarily involving the Capital Receipts Reserve						
Profit/Loss on disposal of assets	151	65	(216)			(657)
Contribution to disposal costs		10	(10)			0
Financing of capital expenditure			(5,751)			5,751
Payments to Capital Receipts Pool	180		(180)			0
Adjustments primarily involving the Major Repairs Reserve						
Reversal of MRA credited to HRA		(2,239)		2,239		0
Use of MRR to finance new capital expenditure				(1,862)		1,862
Adjustments primarily involving the Pensions Reserve						
Reversal of retirement benefits	(23,009)	(233)				23,242
Employer's pension contributions	(19,555)	(198)				19,753
Adjustments primarily involving the Financial Instruments Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	104	12				(116)
Adjustments primarily involving the Collection Fund Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	609					(609)
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive I&E account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements						(40)
Total Adjustments 2010/2011	**(46,364)**	**33,726**	**(6,157)**	**377**	**(295)**	**(4,667)**

Adjustments for 2009/2010	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	Usable Reserves					
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments primarily affecting the Capital Adjustment Account						
Depreciation and Impairment	33,947	1,711				(35,658)
Revaluation Losses	44,975	38,808				(83,781)
Capital Grants & Contributions Applied	(59,153)				11,892	52,920
Revenue Expenditure Funded from Capital Under Statute	22,989					(22,989)
Derecognition & other adjustments						(17,261)
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	(8,568)					8,568
Voluntary provision above MRP	(1,975)					1,975
Revenue contribution to finance capital	(1,188)					1,188
Adjustments primarily involving the Capital Receipts Reserve						
Profit/Loss on disposal of assets	(844)	50	794			(2,895)
Contribution to disposal costs		5	(5)			
Financing of capital expenditure			(4,609)			4,609
Payments to Capital Receipts Pool	191		(191)			
Adjustments primarily involving the Major Repairs Reserve						
Reversal of MRA credited to HRA		(1,711)		1,711		0
Use of MRR to finance new capital expenditure				(4,413)		4,413
Adjustments primarily involving the Pensions Reserve						
Reversal of retirement benefits	19,240	240				(19,480)
Employer's pension contributions	(18,649)	(233)				18,882
Adjustments primarily involving the Financial Instruments Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	103	12				(115)
Adjustments primarily involving the Collection Fund Adjustment Account						
Difference between statutory amounts and amounts recognised as income and expenditure	(532)					532
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive I&E account on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements						(699)
Total Adjustments 2009/2010	**30,536**	**38,882**	**(4,011)**	**(2,702)**	**11,892**	**(89,791)**

2. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/2011.

	Balance 1 April 2009	Transfers Out 2009/2010	Transfers in 2009/2010	Balance 31 March 2010	Transfers in 2010/2011	Transfers out 2010/2011	Balance 31 March 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund							
General Reserve	3,263	0	3,848	**7,111**	799	(1,781)	**6,129**
Schools Balances	5,850	(620)	0	**5,230**	1,972	0	**7,202**
Other Earmarked Reserves	8,295	(518)	1,692	**9,469**	6,401	(5,247)	**10,623**
Total	**17,408**	**(1,138)**	**5,540**	**21,810**	**9,172**	**(7,028)**	**23,954**

3. Other Operating Expenditure

2009/2010 £'000		2010/2011 £'000
279	Parish Council Precepts	317
921	Levies	906
191	Payment to the Government Housing Capital receipts Pool	180
(794)	Gains/losses on disposal of non-current assets	216
107	HRA share of corporate and democratic core	110
704	**Total**	**1,729**

4. Financing and Investment Income and Expenditure

2009/2010 £'000		2010/2011 £'000
11,233	Interest payable and similar charges	10,904
39	Interest element of finance leases (lessee)	121
9,868	Pension interest costs and expected return on pensions assets	9,037
(3,554)	Interest receivable and similar income	(1,813)
(300)	Income and expenditure in relation to investment properties and changes in fair value	(267)
0	Gains or losses on trading accounts	0
17,286	**Total**	**17,982**

5. Taxation and Non-Specific Grant income

2009/2010 £000s		2010/2011 £000s
(94,859)	Council tax income	(97,601)
(66,805)	Non domestic rates	(74,336)
(29,812)	Non-ringfenced Government Grants	(26,993)
(59,153)	Capital grants and contributions	(65,071)
(250,629)	**Total**	**(264,001)**

6. Property, Plant and Equipment

Movement on Balances 2010/2011	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community assets	Surplus Assets	Assets Under Construction	Total Tangible Assets
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2010	138,538	648,710	4,777	191,509	6,256	2,095	13,039	1,004,925
Additions	2,597	17,685	3,319	36,936	2,376	0	3,763	66,675
Revaluation increases/decreases recognised in the Revaluation Reserve	0	(1,099)	0	0	1,557	(208)	0	250
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	(34,150)	(2,057)	(8)	0	(141)	(192)	0	(36,548)
Derecognition – disposals	(369)	(287)	0	0	(2)	0	0	(657)
Derecognition - Surplus Assets	0	(3,006)	0	0	(15)	3,021	0	0
Assets reclassified (to)/from Held for Sale	0	(905)	0	0	0	(940)	0	(1,845)
Other movements in cost or valuation	0	(18,112)	0	0	0	0	(11,414)	(18,112)
As at 31 March 2011	**106,617**	**640,928**	**8,088**	**228,445**	**10,032**	**3,776**	**5,388**	**1,003,274**
Accumulated Depreciation/ Impairments								
As at 1 April 2010	(1,711)	(37,306)	(2,530)	(53,495)	0	0	0	(95,042)
Depreciation charge	(2,239)	(17,211)	(528)	(16,013)	0	0	0	(35,991)
Depreciation written out to the Revaluation Reserve	0	212	0	0	0	0	0	212
Depreciation written out to the Surplus//Deficit on the Provision of Services	0	195	0	3	0	0	0	198
Impairment losses/(reversals) recognised recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	0	5	0	0	0	0	0	5
Derecognition - Surplus Assets	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	121	0	0	0	0	0	121
Other movements in depreciation and impairment	0	1,771	0	0	0	0	0	1,771
At 31 March 2011	**(3,950)**	**(52,212)**	**(3,058)**	**(69,505)**	**0**	**0**	**0**	**(128,725)**

Net Book Value

At 31 March 2011	**102,667**	**588,716**	**5,030**	**158,940**	**10,032**	**3,776**	**5,338**	**874,549**
At 31 March 2010	**136,827**	**611,404**	**2,246**	**138,014**	**6,256**	**2,095**	**13,039**	**909,883**

Comparative Movements 2009/2010

Movement on Balances 2009/2010	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant and Equipment**	**Infrastructure Assets**	**Community assets**	**Surplus Assets**	**Assets Under Construction**	**Total Tangible Assets**
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2009	172,774	694,892	4,489	168,582	4,423	1,760	4,231	1,051,152
Additions	5,148	2,358	288	21,467	2,046	0	8,808	40,115
Revaluation increases/decreases recognised in the Revaluation Reserve	0	24,157	0	1,460	1,164	0	0	26,781
Revaluation increases/decreases recognised in the Surplus/Deficit on the Provision of Services	(38,808)	(61,972)	0	0	(1,361)	0	0	(102,141)
Derecognition – disposals	(176)	(7,028)	0	0	0	(1,760)	0	(8,964)
Derecognition - Surplus Assets	(400)	(1,695)	0	0	0	2,095	0	0
Assets reclassified (to)/from Held for Sale	0	(2,003)	0	0	(15)	0	0	(2,018)
Other movements in cost or valuation	0	0	0	0	0	0	0	0
As at 31 March 2010	**138,538**	**648,710**	**4,777**	**191,509**	**6,256**	**2,095**	**13,039**	**1,004,925**
Accumulated Depreciation/ Impairments								
As at 1 April 2009	0	(39,134)	(2,157)	(39,167)	0	0	0	(80,458)
Depreciation charge	(1,711)	(18,421)	(373)	(14,380)	0	0	0	(34,885)
Depreciation written out to the Revaluation Reserve	0	2,692	0	52	0	0	0	2,744
Depreciation written out to the Surplus//Deficit on the Provision of Services	0	18,057	0	0	0	0	0	18,057
Impairment losses/(reversals) recognised recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition – disposals	0	0	0	0	0	0	0	0
Derecognition - Surplus Assets	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	(500)	0	0	0	0	0	(500)
At 31 March 2010	**(1,711)**	**(37,306)**	**(2,530)**	**(53,495)**	**0**	**0**	**0**	**(95,042)**

Net Book Value

At 31 March 2010	**136,827**	**611,404**	**2,246**	**138,014**	**6,256**	**2,095**	**13,039**	**909,883**
At 31 March 2009	**172,774**	**655,758**	**2,332**	**129,415**	**4,423**	**1,760**	**4,231**	**970,693**

Capital Commitments

At 31 March 2011 the Council has entered into a number of major contracts for the construction and enhancement of Property, Plant and equipment in 2011/2012 and future years budgeted to cost £21.140 million. Similar commitments as at 31 March 2010 were £27.653 million. The major commitments are in respect of Walderslade Primary School, Sir Joseph Williamsons Mathematical School, academies programme, improvements to the A228 and the regeneration of Chatham Town Centre.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. With the exception of the housing stock that was valued by external valuers DTZ, all other valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

Inspections
In accordance with the relaxations agreed between the RICS and CIPFA, not all properties were inspected in their entirety. This was neither practical nor considered necessary for the purpose of this revaluation. However, external visual Inspections were carried out on all these properties.

Information from other parts of the Council
For the purposes of this Certificate, we have in some instances had to rely upon information regarding the properties provided to us by other Departments within Medway Council and our valuations are dependent on the accuracy of the information supplied and/or the assumptions made. If these prove to be incorrect or inadequate then they could affect the accuracy of the valuations.

Title
We have not undertaken any local searches or inspected Title Deeds, Planning Consents, Statutory Notices, Licences or other documents relating to the properties (except where indicated). We cannot therefore comment as to whether the construction or condition, use or intended use of the property was, is or will become unlawful or is in breach any covenant.

Unless stated otherwise, we have assumed that good title can be shown with no unusual or onerous restrictions, encumbrances or outgoings.

Planning proposals
We have not made formal written enquiries of the Planning Department to ascertain if there are any proposals likely to affect specific properties.

Unless stated in the individual valuations, we have assumed there are no planning proposals that are likely to have an effect on the value of a property.

Construction and state of repair
We have not undertaken a structural survey nor tested the service installations.

Where properties have been inspected those parts of the property that are covered, unexposed or inaccessible have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.

No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.

We have assumed all properties comply with the Disability Discrimination Act 1995.

Unless we are aware that a building has a limited economic life, or this is clear from inspection, we have assumed a reasonable standard of repair and that all reasonable internal and external repairs and maintenance have been carried out. We have further assumed that such repairs do not constitute improvement to the building and do not have a material effect on asset value.

Deleterious or hazardous substances
We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect.

For the purpose of this valuation we have assumed that such investigation would not disclose the presence of any such material in any adverse conditions.

Environmental Assessment
Unless stated on the appropriate Valuations, we are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on these properties and which may draw attention to any contamination or possibility of any such contamination.

We have not carried out any investigation into past or present uses of the properties or of any neighbouring land to establish whether there is any potential for contamination and therefore we have assumed, unless stated otherwise, that no contaminative or potentially contaminative uses, underground mining, or other engineering works have ever been carried out on or adversely affect these properties.

We have assumed, unless stated otherwise, that there has been no recent flooding affecting these properties and that inclusion on any map identifying possible flood occurrences will have no affect on value.

Plant and machinery
Plant and machinery installed to provide services normally expected with that type or quality of building or land holding has been valued as an integral part of the asset unless the plant and machinery element has been identified as forming a significant proportion of the overall value of the asset. In such limited cases a separate value and assessment of economic life have been provided for that plant and machinery.

Plant and machinery primarily serving a commercial or industrial process has been excluded.

Vat, taxation and costs of realisation
No allowance has been made for liability for taxation, which may arise on disposal, whether actual or notional. VAT and Capital Gains Tax are specifically excluded and no deductions have been made for any potential realisation costs.

Lotting (if applicable)
Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if a number of properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.

Valuation Commentary

A number of other assumptions have been adopted to ensure consistency in approach:

a) No specific allowance has been made for any under or over capacity arising from the use and occupation of individual operational properties. Where appropriate, this is reflected in the assessment of remaining useful life and depreciation for age and obsolescence.

b) Depreciation of replacement build costs has been calculated according to age bands rather than a straight-line approach. No deduction is made for properties up to 10 years old and thereafter the factor increases with age up to a maximum 50%. The cap assumes that basic health & safety/legal requirements have been complied with and that basic service provision is able to continue on the site.

c) Remaining useful life has been calculated to reflect the age of the building, current condition, functional suitability for the existing use, and original 'designed life' expectations (i.e. conventional build, restricted life, or temporary structure). Conventionally constructed buildings are assumed to have a maximum life of 60 years, reducing in bands after 10 years

Removal of Schools Transferring to Academies

Schools with a value of £18.198m have achieved academy status between 01.04.11 and 01.11.11 and will therefore need to be removed from the balance sheet for the 2011/2012 financial statements.

7. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

Investment properties	**2010/2011 £'000**	**2009/2010 £'000**
Rental income from investment property	387	294
Direct operating expenses arising from investment property	0	0
Net gain/(loss)	**387**	**294**

The following table summarises the movement in the fair value of investment property over the year:

Investment Properties	**31 March 2011 £'000**	**31 March 2010 £'000**
Balance at start of year	5,916	5,926
Net gains/(loss) from fair value adjustments	(119)	(10)
Transfers (to)/from Property, Plant and Equipment	(62)	0
Balance at end of year	**5,735**	**5,916**

8. Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

	Long-term		Current	
Financial Instruments	**31 March 2011**	**31 March 2010**	**31 March 2011**	**31 March 2010**
	£'000	**£'000**	**£'000**	**£'000**
Investments				
Loans and Receivables	0	10,000	30,139	1
Available for sale financial assets	4	4	0	0
Fair value through profit or loss	0	0	22,460	22,236
Total Investments	**4**	**10,004**	**52,599**	**22,237**
Debtors				
Loans and Receivables	762	788	0	0
Total Debtors	**762**	**788**	**0**	**0**
Borrowings				
Financial liabilities at amortised cost	(165,072)	(175,139)	(11,659)	(26,895)
Financial liabilities at fair value through profit and loss	0	0	0	0
Total Borrowings	**(165,072)**	**(175,139)**	**(11,659)**	**(26,895)**
Other Long –Term Liabilities				
FRS 17 pensions liability	(136,776)	(265,235)	0	0
Finance lease liability	(4,045)	(1,087)	0	0
Total Other Long-Term Liabilities	**(140,821)**	**(266,322)**	**0**	**0**
Long-Term Creditors				
Financial liabilities at amortised cost	(47,746)	(49,709)		
Financial liabilities carried at contract amount	0	0	0	0
Total Long-Term Creditors	**(47,746)**	**(49,709)**	**0**	**0**

Financial Instruments held for less than 3 months are classified as Cash and Cash Equivalent. Please see note 12.

Income, Expenses, gains and Losses

	2010/11					2009/10				
	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s	Financial Liabilities measured at amortised cost £000s	Financial Assets: Loans and receivables £000s	Financial Assets: Available for sale £000s	Assets and Liabilities at Fair Value through Profit and Loss £000s	Total £000s
Interest expense	(10,084)				(10,084)	(10,483)				(10,483)
Total expense in Surplus or Deficit on the Provision of Services	**(10,084)**				(10,084)	**(10,483)**				**(10,483)**
Interest income		1,347	1	261	1,609		3,114	1	275	3,390
Total income in Surplus or Deficit on the Provision of Services	**0**	**1,347**	**1**	**261**	**1,609**	**0**	**3,114**	**1**	**275**	**3,390**
Net gain/(loss) for the year	**(10,084)**	**1,347**	**1**	**261**	**(8,475)**	**(10,483)**	**3,114**	**1**	**275**	**(7,093)**

Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2011 Carrying Amount £'000	31 March 2011 Fair Value £'000	31 March 2010 Carrying Amount £'000	31 March 2010 Fair Value £'000
PWLB debt	72,138	69,804	97,410	98,933
Non-PWLB debt	104,457	109,610	104,492	112,647
Total debt	176,595	179,414	201,902	211,580
Long-term creditors	47,746	47,746	49,709	49,709
Total liabilities	**224,341**	**227,160**	**251,611**	**261,289**

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

	31 March 2011 Carrying Amount £'000	31 March 2011 Fair Value £'000	31 March 2010 Carrying Amount £'000	31 March 2010 Fair Value £'000
Loans and receivables	47,062	46,975	66,820	66,659
Long-term debtors	762	762	788	788
Total assets	**47,824**	**47,737**	**67,608**	**67,447**

The fair value of the assets is lower than the carrying amount because the Authority's portfolio of investments includes some fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date.

The fair values for loans and receivables have been determined by reference to similar practices, as above, which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

9. Debtors

	31 March 2011 £'000	31 March 2010 Revised
Central government bodies	26,567	28,450
Other Local Authorities	1,983	2,749
NHS bodies	974	2,884
Public corporations and trading funds	2,017	1,951
Other entities and individuals	20,830	25,546
Total Debtors	**52,371**	**61,579**

At the end of March 2011 £3,643,000 overpayment of housing benefit was unrecovered (March 2010 £3,146,000). It is the Council's policy to account for recovery of overspent benefit on a cash basis and therefore this balance of debtors is, in effect, negated by a 100% provision for bad debts. Income within the Income and Expenditure account has consistently been allocated on a cash receipt basis. This is regarded as the most prudent process regarding the outstanding debt. Amounts received in 2010/2011 were £719,000 (2009/2010 £835,000)

10. Creditors

	31 March 2011 £'000	31 March 2010 £'000
Central government bodies	6,926	5,361
Other Local Authorities	6,134	6,228
NHS bodies	3,148	3,561
Public corporations and trading funds	8,910	7,975
Other entities and individuals*	30,532	34,822
Total Creditors	**55,650**	**57,947**

11. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

Cash and Cash Equivalents	31 March 2011 £'000	31 March 2010 £'000
Cash held by the Council	24	23
Bank current accounts	3,673	(84)
Short-term deposits with financial institutions	16,923	56,818
Total Cash & Cash Equivalents	**20,620**	**56,757**

12. Assets Held for Sale

	Current		Non-Current	
	2010/11 £'000	**2009/10 £'000**	**2010/11 £'000**	**2009/10 £'000**
Balance Outstanding at start of year	3,748	2,668	0	0
Assets newly classified as held for sale			0	0
▪ Property, Plant and Equipment	1,845	2,018	0	0
▪ Intangiable Assets			0	0
▪ Other assets/liabilities in disposal groups			0	0
Revaluation Losses			0	0
Revaluation Gains			0	0
Impairment Losses			0	0
Assets declassified as held for sale:				
▪ Property, Plant and Equipment			0	0
▪ Intangiable Assets			0	0
▪ Other assets/liabilities in disposal groups			0	0
Assets sold	(3,748)	(953)	0	0
Transfers from non-current to current			0	0
Other movements	0	15	0	0
Balance Outstanding at year end	**1,845**	**3,748**	**0**	**0**

13. Provisions

	Insurance Provision £000s	**Other Provisions £000s**	**Total £000s**
Balance as at 1 April 2010	**2,893**	**48**	**2,941**
Additional provision made in 2010/2011	1,237	419	1,656
Amounts used in 2010/2011	(1,323)	0	(1,323)
Unused amounts reversed in 2010/2011	0	0	0
Unwinding of discounting in 2010/2011	0	0	0
Balance as at 31 March 2011	**2,807**	**467**	**3,274**

The Insurance Provision represents the sum set aside for unsettled, known claims as at 31 March 2011 in line with FRS 12. The majority of the unsettled claims are for public liability.

14. Usable Reserves

Movements in the Council’s usable reserves are detailed in the Movement in Reserves Statement.

15. Unusable Reserves

	31 March 2011	31 March 2010
	£'000	£'000
Revaluation Reserve	90,197	92,487
Capital Adjustment Account	551,761	595,906
Pensions Reserve	(136,776)	(265,235)
Financial Instruments Adjustment Account	(1,103)	(988)
Collection Fund Adjustment Account	0	609
Accumulated Absences Account	(4,509)	(4,469)
Total Unusable Reserves	**499,571**	**418,310**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2010/2011		2009/2010	
Revaluation Reserve	£'000	£'000	£'000	£'000
Balance as at 1 April		92,487		66,202
Upward revaluation of assets	11,254		37,969	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(10,790)		(8,444)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		464		29,525
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost	0		1,539	
Accumulated gains on assets sold or scrapped	(2,753)		(4,780)	
Amount written off to the Capital Adjustment Account		(2,753)		(3,241)
Balance as at 31 March		**90,197**		**92,487**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 2 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Capital Adjustment Account	**2010/2011**		**2009/2010**	
	£'000	**£'000**	**£'000**	**£'000**
Balance as at 1 April		595,906		681,576
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(35,790)		(35,658)	
Revaluation gains/(losses) on Property, Plant and Equipment	(36,548)		(83,781)	
Revenue Expenditure funded from Capital Under Statute	(28,631)		(22,989)	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(657)		(2,895)	
		(101,626)		(145,323)
Adjusting amounts written out of the Revaluation Reserve	2,753		3,241	
Other adjustments	(22,682)		(17,261)	
Net written out amount of the cost of non-current assets consumed in the year		(19,929)		(14,020)
Capital financing applied in the year:				
Use of Capital Receipts Reserve to finance new capital expenditure	5,751		4,609	
Use of the Major Repairs Reserve to finance new capital expenditure	1,862		4,413	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	60,867		45,760	
Application of grants to capital financing from the Capital Grants Unapplied Account	295		7,160	
Provision for the financing of capital investment charged against the General Fund and HRA balances	7,838		10,543	
Capital expenditure charged against the General Fund and HRA balances	917		1,188	
		77,530		73,672
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(120)		0
Balance as at 31 March		**551,761**		**595,906**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Pensions Reserve	**2010/2011**	**2009/2010**
	£'000	**£'000**
Balance as at 1 April	**(265,235)**	**(132,100)**
Actuarial gains or losses on pension assets and liabilities	85,464	(132,537)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	23,242	(19,480)
Employer's pensions contributions and direct payments to pensioners payable in the year	19,753	18,882
Balance as at 31 March	**(136,776)**	**(265,235)**

Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Financial Instruments Adjustment Account	**2010/2011**	**2009/2010**
	£'000	**£'000**
Balance as at 1 April	**(988)**	**(873)**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(115)	(115)
Balance as at 31 March	**(1,103)**	**(988)**

Collection Fund Adjustment Account

This account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Collection Fund Adjustment Account	**2010/2011 £'000**	**2009/2010 £'000**
Balance as at 1 April	**609**	**77**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(609)	532
Balance as at 31 March	**0**	**609**

Accumulated Absences Account

This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Accumulated Absences Account	**2010/2011 £'000**	**2009/2010 £'000**
Balance as at 1 April	**(4,469)**	**(3,770)**
Settlement or cancellation of accrual made at the end of the preceding year	(40)	(699)
Balance as at 31 March	**(4,509)**	**(4,469)**

16. Cash Flow – Operating Activities

The net surplus or deficit on the provision of services within the Comprehensive Income and Expenditure Statement includes some transactions that do not result in cash flows when deriving the net cash flows from operating activities. The table below details these non-cash movements and items that are investing and financing activities.

2009/10 £'000		2010/11 £'000
(34,272)	Depreciation and amortisation	(35,956)
(83,836)	Impairment and downward valuations	(36,655)
729	Carrying amount of PPE, Investment Property and Intangible assets sold	218
(19,480)	Pensions Reserve	42,995
(115)	Financial Instrument Adjustments	(115)
285	Other adjustments	5,324
(1,862)	Contributions to / (from) provisions	(2,243)
8	Increase / decrease in inventories	(21)
10,457	(Increase) / decrease in debtors/payments in advance	(8,419)
2,904	(Increase) / decrease in creditors/income in advance	5,366
(130,990)	**Adjustments to net surplus or deficit on the provision of services for non-cash movements**	**(28,506)**
55,978	Capital grants & contributions credited to surplus/deficit on the provision of services	59,949
3,861	Proceeds from the sale of PPE, Investment Property and Intangible Assets	4,220
(71,151)	**Adjustments to net surplus or deficit on the provision of services for items that are investing or financing activities**	**34,663**
	The cash flows for operating activities include the following items:	
10,480	Interest received	7,779
(3,528)	Interest paid	(2,158)

17. Cash Flow – Investing Activities

2009/10 £'000		2010/11 £'000
66,121	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	80,933
586,350	Purchase of short-term and long-term investments	581,230
(3,861)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(4,220)
(688,969)	Proceeds from the sale of short-term and long-term investments	(601,227)
(55,978)	Other receipts from investing activities	(59,949)
(96,337)	**Net cash flows from investing activities**	**(3,233)**

18. Cash Flow – Financing Activities

2009/10 £'000		2010/11 £'000
(48,605)	Cash receipts of short- and long-term borrowing	(10,005)
	Other receipts from financing activities	
	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	
99,007	Repayments of short- and long-term borrowing	35,046
151	Other payments for financing activities	151
50,553	**Net cash flows from financing activities**	**25,192**

19. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are made by the Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve, amortisations and revenue expenditure funded from capital under statute (REFCUS) are charged to services in the Comprehensive Income and Expenditure Statement)

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2010/2011	Children and Adult Services	Regeneration, Community and Culture	Business Support	Public Health	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(48,377)	(32,943)	(41,304)	(744)	**(123,368)**
Government Grants	(64,584)	(3,201)	(115,424)	(183)	**(183,392)**
Total Income	**(112,961)**	**(36,144)**	**(156,728)**	**(927)**	**(306,760)**
Employee Expenses	195,953	22,636	32,974	431	**251,994**
Other service expenses	182,946	60,606	129,970	857	**374,379**
Support service recharge	6,986	5,696	10,067	40	**22,789**
Depreciation	13,092	20,066	784	0	**33,942**
Total Expenditure	**398,977**	**109,004**	**173,795**	**1,328**	**683,104**
Net Expenditure	**286,016**	**72,860**	**17,067**	**401**	**376,344**

Directorate Income and Expenditure 2009/2010 Comparative Figures					
Fees, charges & other service income	(51,368)	(30,840)	(36,843)	(905)	**(119,956)**
Government Grants	(55,202)	(2,706)	(112,020)	(89)	**(170,017)**
Total Income	**(106,570)**	**(33,546)**	**(148,863)**	**(994)**	**(289,973)**
Employee Expenses	205,947	24,941	22,989	516	**254,393**
Other service expenses	161,081	56,638	132,769	888	**351,376**
Support service recharge	6,631	6,044	8,331	35	**21,041**
Depreciation	18,529	18,081	663	0	**37,273**
Total Expenditure	**392,188**	**105,704**	**164,752**	**1,439**	**664,083**
Net Expenditure	**285,618**	**72,158**	**15,889**	**445**	**374,110**

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010/2011	2009/2010
	£'000	£'000
Net expenditure in Directorate analysis	376,344	374,110
Net expenditure of services and support services not included in the Analysis	(1,241)	(1,729)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(151,298)	(75,886)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(152,539)	(77,615)
Cost of Services in Comprehensive Income and Expenditure Statement	**223,805**	**296,495**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/2011	Directorate Analysis	Services not in Analysis- HRA	Amounts not Reported to Management	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(98,577)	(11,990)	(2,814)	(113,381)	0	(113,381)
Interest and investment income	0	0	0	0	(2,199)	(2,199)
Income from Council tax	0	0	0	0	(97,601)	(97,601)
Government grants and contributions	(208,183)	(4)	(160,753)	(368,940)	(166,400)	(535,340)
Pension Adjustment	0	0	(52,055)	(52,055)	0	(52,055)
Total Income	**(306,760)**	**(11,994)**	**(215,622)**	**(534,376)**	**(266,200)**	**(800,576)**
Employee Expenses	251,994	1,455	177	253,626	0	253,626
Other service expenses	374,379	6,382	27,927	408,688	11,201	419,888
Support service recharge	22,789	677	0	23,466	0	23,466
Depreciation, amortisation and impairment	33,942	2,239	2,170	38,351	396	38,747
Precepts and levies	0	0	0	0	1,223	1,223
Payments to Housing Capital Receipts Pool	0	0	0	0	180	180
Gain or loss on disposal of fixed assets	0	0	34,051	34,051	(128)	33,923
Pension Adjustments	0	0	0	0	9,037	9,037
Total Expenditure	**683,104**	**10,753**	**64,324**	**758,101**	**21,909**	**780,090**
(Surplus)/Deficit on the provision of services	**376,344**	**(1,241)**	**(151,298)**	**223,805**	**(244,291)**	**(20,486)**

2009/2010 Comparative Figures	Directorate Analysis	Services not in Analysis - HRA	Amounts not Reported to Management	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(89,381)	(11,646)	(10,711)	**(111,738)**	(2,168)	(113,906)
Interest and investment income	0	0	3,528	**3,528**	(3,843)	(315)
Income from Council tax	0	0	0	**0**	(94,859)	(94,859)
Government grants and contributions	(194,445)	0	(166,279)	**(360,724)**	(153,602)	(514,326)
Total Income	**(283,826)**	**(11,646)**	**(173,462)**	**(468,934)**	**(254,472)**	**(723,406)**
Employee Expenses	254,393	1,766	0	**256,159**	0	256,159
Other service expenses	345,229	5,279	17,594	**368,102**	21,295	389,397
Support service recharge	21,041	660	0	**21,701**	0	21,701
Depreciation, amortisation and impairment	37,273	2,212	79,982	**119,467**	(10)	119,457
Precepts and levies	0	0	0	**0**	1,201	1,201
Payments to Housing Capital Receipts Pool	0	0	0	**0**	191	191
Gain or loss on disposal of fixed assets	0	0	0	**0**	(844)	(844)
Total Expenditure	**657,936**	**9,917**	**97,576**	**765,429**	**21,833**	**787,262**
(Surplus)/Deficit on the provision of services	**374,110**	**(1,729)**	**(75,886)**	**296,495**	**(232,639)**	**63,856**

20. Pooled Budgets

From 1 April 2009, commissioning responsibility for all learning disabled clients requiring social care transferred to local authorities. This meant that the Section 31 agreement, which Medway PCT entered into with Medway Council, was no longer necessary and the transfer of PCT funding to the Council was dictated by the Department of Health. The sum of the transfers made by Medway, Eastern and Coastal Kent and West Kent for 2010/2011 was £8,893,663.

During 2008/2009, the Council also entered into an agreement with Medway PCT for the delivery of joint service priorities within the Local Area Agreement, via the establishment of an LAA Innovation Fund, under Section 75 of the National Health Services Act 2006. This funding was committed, over a three year period, to various projects which met LAA health targets. The PCT made a contribution of £1,200,000. Expenditure during 2008/2009 amounted to £89,452 and a further £388,426 was spent during 2009/2010. In this, the final year of the agreement, the Council has incurred expenditure of £372,122 and the unspent balance of £350,000 has been returned to Medway PCT.

21. Members' Allowances

In 2010/2011 a total of £812,000 (2009/2010 £827,000) was paid to the Council's 55 members in respect of allowances. Full details can be found on the Council's website from the following link:
http://www.medway.gov.uk/councilanddemocracy/councillors/membersallowances.aspx

22. Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	146,640	8,397	168	155,205	31,382	186,587
Director of Children's Services	118,406	13,130	0	131,536	26,561	158,097
Director of Regeneration, Community & Culture	114,726	13,130	75	127,931	25,777	153,708
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,479	0	95,456	19,370	114,826
Assistant Director Lifelong Learning	74,691	13,667	51	88,409	17,858	106,267
Assistant Director Development, Economy & Transport	84,977	5,213	56	90,246	18,248	108,494
Assistant Director Front Line Services	84,977	5,213	0	90,190	18,248	108,438
Assistant Director Communications, Performance & Partnerships	84,977	8,403	0	93,380	18,928	112,308
Assistant Director Housing & Corporate Services	84,560	18,503	0	103,063	20,990	124,053
Chief Finance Officer	82,629	19,379	0	102,008	20,765	122,773
Head of Medway Renaissance	82,629	18,457	273	101,359	20,577	121,936
Assistant Director Organisational Services	82,629	8,403	0	91,032	18,427	109,459
Assistant Director Children's Care	78,836	5,213	35	84,084	16,940	101,024
Assistant Director Commissioning & Strategic Development	72,400	5,213	0	77,613	15,569	93,182
Assistant Director Inclusions	67,774	5,213	25	73,012	14,584	87,596
Assistant Director Social Care	64,968	11,213	0	76,181	13,986	90,167

Comparative figures for 2009/2010 are as follows

Post	Salary	Fees and Allowances	Expenses	Total Excluding Pension Contribution	Pension Contribution	Total
	£	£	£	£	£	£
Chief Executive	140,646	14,006	75	154,727	30,419	185,146
Director of Children's Services	114,807	13,130	0	127,937	25,068	153,005
Director of Regeneration, Community & Culture	109,915	13,130	119	123,164	24,055	147,219
Assistant Director Customer First, Leisure, Democracy & Governance	84,977	10,622	0	95,599	18,854	114,453
Assistant Director Lifelong Learning	83,702	15,871	209	99,782	19,676	119,458
Assistant Director Development, Economy & Transport	83,683	5,213	59	88,955	17,466	106,421
Assistant Director Front Line Services	83,587	5,213	0	88,800	17,447	106,247
Assistant Director Communications, Performance & Partnerships	82,207	8,431	0	90,638	17,923	108,561
Assistant Director Housing & Corporate Services	82,213	16,905	37	99,155	19,582	118,737
Chief Finance Officer	80,291	19,754	0	100,045	19,774	119,819
Head of Medway Renaissance	80,076	18,443	654	99,173	19,513	118,686
Assistant Director Organisational Services	80,052	8,463	0	88,515	17,442	105,957
Assistant Director Children's Care	77,963	5,213	0	83,176	16,282	99,458
Assistant Director Commissioning & Strategic Development	71,057	5,213	0	76,270	14,853	91,123
Assistant Director Inclusions	64,742	5,156	0	69,898	13,697	83,595
Assistant Director Social Care	64,149	5,213	0	69,362	13,422	82,784

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

	Number of Employees			
	Schools		**Non-Schools**	
Remuneration Band	**2010/2011**	**2009/2010**	**2010/2011**	**2009/2010**
£50,000 to £54,999	111	95	29	27
£55,000 to £59,999	43	55	14	19
£60,000 to £64,999	36	38	42	40
£65,000 to £69,999	33	20	10	8
£70,000 to £74,999	18	12	2	0
£75,000 to £79,999	4	6	1	0
£80,000 to £84,999	1	3	1	0
£85,000 to £89,999	6	4	0	0
£90,000 to £95,999	1	3	0	0
£95,000 to £99,999	4	4	0	0
£100,000 to £104,999	0	2	0	0
£105,000 to £109,999	1	0	0	0
£110,000 to £114,999	1	2	0	0
£115,000 to £119,999	1	1	0	0
£120,000 to £124,999	2	0	0	0
£125,000 to £129,999	1	0	0	0
Total	**263**	**245**	**99**	**94**

23. External Audit Costs

The following amounts were paid in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections:

	2010/2011 £'000	2009/2010 £'000
PKF - Statement of Accounts	239	216
PKF - Use of Resources	90	93
PKF - Risk Based Use of Resources	20	20
PKF - Grants (Including grants report)	85	84
Total	**434**	**413**
Audit Commission - Managing Performance / Strategic Housing Re-inspection	0	60

24. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

During 2010/2011 the Council incurred an underspend of £698,000 on DSG services. After taking account of the deficit of £68,000 brought forward from 2009/2010 a surplus of £630,000 was carried forward to 2011/2012.

An analysis of the DSG for 2010/2011 is provided in the table below.

	Central Expenditure £'000	ISB £'000	Total £'000
Budgeted DSG in 2010/11	22,407	150,545	172,952
Difference between budgeted and actual DSG	(33)	(14,574)	(14,607)
Final DSG for 2010/11	22,374	135,971	158,345
Brought forward from 2009/10	(68)	0	(68)
Carry forward to 2011/12 agreed in advance	0	0	0
DSG available in 2010/11	22,306	135,971	158,277
Actual central expenditure	21,216	0	21,216
Actual ISB deployed to schools	0	136,430	136,430
Local authority contribution for 2010/11	0	0	0
Carry forward to 2011/12	1,090	(459)	631

25. Grant Income

	2010/11 £'000	2009/10 £'000
Credited to Taxation and Non Specific Grant Income		
Formula Grant / Revenue Support Grant	10,794	15,420
Redistributed National Non-Domestic Rates	74,336	66,805
PSA Reward Grant	0	2,541
Area Based Grant	16,199	11,852
Recognition of Capital Grants and Contributions	65,071	59,153
Total	**166,400**	**155,770**
Credited to Services		
Department for Children, Schools and Families		
- Dedicated Schools Grant	158,345	164,588
- School Standards Grant	7,892	8,426
- Standards Fund	18,153	15,185
- DCSF Other	8,207	7,198
Department of Health	762	1,004
Department for Communities and Local Government	0	0
- Supporting People Grant	70	5,891
- Supporting People Admin. Grant	0	0
- DCLG Other	300	333
Department of Transport	1,546	692
Home Office	2,032	2,323
Learning and Skills Council	28,217	21,003
Tax Collection & Benefit Administration	2,715	2,372
Benefit Subsidy	109,645	102,825
DEFRA	8	9
Public Service Agreement	41	108
Other Miscellaneous Grants	10,661	8,926
Department for Culture, Media and Sport	0	229
Contributions from NHS Partners	13,572	13,548
Contributions from the Youth Justice Board	823	697
Contributions from Other Local Authorities	2,203	2,068
Miscellaneous Contributions	1,336	1,609
Total	**366,528**	**359,033**

The Authority has received a number of grants, contributions or donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year end are as follows:.

	31/03/2011 £,000	31/03/10 £,000
Capital Grants Receipts in Advance		
Section 106	7,524	2,554
	7,524	**2,554**

26. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 17 on reporting for resources allocation decisions.

Members

The Council holds a statutory register of members' declarations covering employment, sponsorship, property and land holdings, contracts with the Council etc. Members and senior officers declare any pecuniary interest in committee items prior to their debate. The Council also holds a Register of Interest relating to members and senior officers. These registers are open to inspection by members of the public.

All members agree to the terms of the National Code of Local Government Conduct and the Council has introduced a Code of Conduct agreeing guidelines for good working practice between members and officers.

One Member of the Council is a non-executive director of NHS Medway. During the year the Council received £16.731 million from NHS Medway (see Note 4) and paid £821,000 in respect of various services.

One member of the Council has declared that a member of his household is the Chief Executive of Medway District CAB Ltd. The Council made payments to the organisation amounting to £270,600 during 2010/2011.

Members of Medway Council represent the Council on the boards of the following organisations:

Chatham Historic Dockyard Trust (CHDT) – Two members represent the Council on the trust which is set up to secure for the public benefit the preservation and use of the Historic Dockyard at Chatham in a manner appropriate to its archaeological, historical and architectural importance and promote and foster for the public benefit a wide knowledge and understanding of the significance of the dockyard. The Council made payments to the Trust amounting to £143,000 during 2010/2011.

Fort Amherst Heritage Trust – One member represents the Council on the Trust, which manages the 18th century fort as a popular visitor attraction. The Council made payments to the Trust amounting to £30,700 during 2010/2011

Rochester Bridge Trust (RBT) – Three members represent the Council on the trust, the main purpose of which is to maintain and improve the Medway Tunnel, bridges and associated riverbanks in order to facilitate passage over, under or across the River Medway. There were no financial transactions between the Council and the Trust during 2010/2011. In 2009/2010 the Council acquired the freehold of Medway Tunnel at a peppercorn and received £3.274 million from RBT in that year as a contribution towards future maintenance costs.

Thames Gateway Kent Partnership (TGKP) – The leader of the Council, in common with neighbouring authorities and Kent County Council, is a board member of TGKP. The aims and objectives of the partnership are to provide a strong and effective partnership to bring about a high-quality sustainable economic development and regeneration of the whole Thames Gateway Kent areas, to promote economic and social investment and equality of opportunity and to create employment, community and environmental benefits for local people, businesses and employees, reflecting their needs and aspirations. The Council contributed £25,000 to the Partnership in 2010/2011.

Officers

One senior officer is a board member of Locate in Kent, a company funded and supported by Kent County Council, South East England Development Agency (SEEDA), East Kent Partnership, Medway Council, local councils and the Kent Developers Group which provide a free, comprehensive and confidential relocation service to help businesses benefit from the Kent's unique locational advantages. The Council contributed £31,500 to the company in 2010/2011.

Other Public Bodies

Other than transactions disclosed elsewhere within these accounts (e.g. note 17), there are no other disclosures required in accordance with FRS 8 – Related Party Transactions.

27. Capital Expenditure and Capital Financing

The following table shows the total amount of capital expenditure incurred in the year together with the resources used to finance it.

	2010/2011 £'000	2009/2010 £'000
Capital Investment		
Property Plant and Equipment	52,022	40,415
Investment Properties	0	0
Revenue Expenditure Funded from Capital under Statute (See Note)	27,927	22,989
Total	**79,949**	**63,404**

	2010/2011 £'000	2009/2010 £'000
Sources of Finance		
Capital receipts	5,751	4,609
Government grants and other contributions	60,092	44,178
Sums set aside from revenue	211	5,601
Direct revenue contributions	0	0
Borrowing	13,895	9,016
	79,949	**63,404**

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

The CFR at 31 March 2011 was £236,125,254 (31 March 2010 £230,068,000).

Note : The Revenue Expenditure Funded from Capital under Statute includes £703,000 Asset Under Construction as at 31 March 2010 which has since been reclassified as an asset not recognised in the Council's accounts.

28. Leases

Council as Lessee

Finance Leases

The Council has a small number of finance leases for the acquiring of Plant and Equipment, however, these are all below the authorities approved de-minimis level of £25,000 and have therefore been recognised within the accounts as operating leases.

The Council has finance lease arrangements however, in respect of what is termed embedded leases. Embedded leases are where assets, although not owned by the Council, are used primarily by the Council for service delivery. . Embedded leases are contained within our Waste, Highways and Grounds Maintenance contracts. Where we have not been able to ascertain the value and useful life of the assets, estimates have been used. Assets are recognised in the Balance Sheet at the net depreciated value and offset by a deferred liability.

The assets held through embedded leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2011 £'000	**31 March 2010 £'000**
Vehicles, Plant & Equipment	3,700	896

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011 £'000	**31 March 2010 £'000**
Finance lease liabilities (net present value of minimum lease payments) :		
• current	0	0
• non-current	3,155	3,312
Finance costs payable in future years	1,118	1,659
Minimum Lease Payments	4,273	4,971

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2011	**31 March 2010**	**31 March 2011**	**31 March 2010**
	£'000	**£'000**	**£'000**	**£'000**
Not later than one year	698	698	647	157
Later than one year and not later than five years	3,064	2,744	2,126	2,364
Later than five years	511	1,529	382	791
	4,273	**4,971**	**3,155**	**3,312**

Operating Leases

The Council has made use of leases to acquire property, vehicles, and equipment. The future minimum lease payments due under non-cancellable leases in future years are:

	2010/2011	**2009/2010**
	£'000	**£'000**
Not later than one year	1,840	1,970
Later than one year and not later than five years	3,582	4,270
Later than five years	5,408	2,027
Total	**10,830**	**8,267**

Council as Lessor

Operating Leases

The Council leases out property under operating leases for the provision of the following services:

- Community services such as sports facilities, community centres and tourism;
- Economic development to provide suitable affordable accommodation form local businesses;

The future minimum lease payments receivable are:

	2010/2011	**2009/2010**
	£'000	**£'000**
Not later than one year	828	536
Later than one year and not later than five years	1,660	689
Later than five years	16,988	17,918
Total	**19,476**	**19,143**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/2011 £983,221 contingent rents were receivable by the Authority (2009/2010 £1,059,407).

29. Impairment Losses

During 2010/2011 the Council recognised impairment losses of £37,185,000 in the Surplus or Deficit on the Provision of Services mainly relating to Housing Revenue Account dwellings. The breakdown by class of asset is detailed in the table below:

Class of Asset	**2010/2011**
	£'000
Council Dwellings	34,150
Other Land and Buildings	2,215
Vehicles, Plant and Equipment	8
Infrastructure Assets	0
Community Assets	141
Surplus Assets	272
Investment Properties	399
Assets Held for Sale	0
Total	**37,185**

30. Termination Benefits

During the year the Council terminated the contracts of a number of employees across a number of services. The council incurred a cost of £1,707,000 (2009/2010 £1,185,000) in respect of redundancy, payment in lieu of notice and added years pension costs.

31. Defined Contribution Pension Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/2011 the Council paid £11,748,790 (2009/20 £12,643,000) to the DfE in respect of teachers' pension costs, the contributions rate being 14.1% (2009/2010 14.1%). There were no contributions remaining payable at the year-end. In addition the Council is responsible for all pension payments relating to Added Years benefits it has awarded. These amounted to £549,993 (2009/2010 £478,400).

32. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered locally by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the

Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2010/2011 £'000	2009/2010 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Current service costs	21,822	9,395
Past service costs and settlements and curtailments	(54,192)	94
Financing and Investment Income and Expenditure		
Interest cost	27,515	22,581
Expected return on scheme assets	(18,387)	(12,590)
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of services	(23,242)	19,480
Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	(85,464)	132,537
Total Post Employment benefit charged to the Comprehensive Income and Expenditure Statement	(85,464)	132,537
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	(23,242)	19,480
Amount charged against the General Fund Balance for pensions in the year		
Employers' contributions payable to scheme	19,753	18,882

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £85,464,000.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities

	2010/2011 £'000	2009/2010 £'000
Opening balance 1 April	**539,049**	**326,600**
Current service cost	21,822	9,395
Interest cost	27,515	22,581
Contributions by scheme participants	5,727	5,626
Actuarial gains and losses	(93,761)	189,032
Benefits paid	(12,575)	(13,663)
Past service cost	(47,486)	0
Curtailments	357	183
Settlements	(10,561)	(705)
Closing balance 31 March	**430,087**	**539,049**

Reconciliation of fair value of the scheme assets

Reconciliation of fair value of the scheme assets

	2010/2011 £'000	2009/2010 £'000
Opening balance 1 April	**273,814**	**194,500**
Expected of return	18,387	12,590
Actuarial gains and losses	(8,297)	56,495
Employer contributions	19,753	18,882
Contributions by scheme participants	5,727	5,626
Benefits paid	(12,575)	(13,663)
Receipt of bulk transfer value	(3,498)	(616)
Closing balance 31 March	**293,311**	**273,814**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual loss on scheme assets in the year was £8.297 million (2009/2010 gain of £56.495 million)

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £17.386 million.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and

Discretionary Benefits liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Kent County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	2010/2011	2009/2010
Long-term expected rate of return on assets in the scheme		
Equities	7.40%	7.50%
Gilts	4.40%	4.50%
Bonds	5.50%	5.50%
Property	5.40%	5.50%
Cash	3.00%	3.00%
Life expectancy at 65 for current pensioners		
Men	19.8 years	21.5 years
Women	23.9 years	24.4 years
Life expectancy at 65 for future pensioners		
Men	21.9 years	22.6 years
Women	25.8 years	25.5 years
Inflation		
Price increases (RPI used in 2009/10, but CPI in 2010/11)	2.70%	3.90%
Salary increases	5.00%	5.40%
Pension increases	2.70%	3.90%
Rate for discounting scheme liabilities	5.50%	5.50%

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/2011 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31March 2010:

	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
	%	%	%	%	%
Differences between the expected and actual return on assets	(2.80%)	20.60%	(31.90%)	(14.30%)	(0.60%)
Experience gains and losses on liabilities	7.60%	0.40%	(0.20%)	(0.60%)	(0.10%)

Further information can be found in Kent County Council's Superannuation Fund's Annual Report which is available upon request from the Investment Section, Sessions House, County Hall, Maidstone, Kent, ME14 1QX.

33. Contingent Liabilities

There were no known material contingent liabilities as at 31 March 2011

34. Contingent Assets

There were no known material contingent assets as at 31 March 2011.

35. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the authority
- liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- re-financing risk – the possibility that the authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved annually by Medway Council in its Treasury Management Strategy. Medway Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. As a result of the current economic position the criteria to assess credit risk is regularly reviewed and enhanced. Within the Treasury Management Strategy 2010/2011 approved by Cabinet 16 February 2010 the new CIPFA Treasury Management in the Public Services Code of Practice was formally adopted. The strategy is approved annually and sets out the Council's investment priorities, which are the security of capital and the liquidity of its investments ahead of yield. Full Council approved the 2011/12 Strategy on the 24 February 2011.

Counterparties continue to be monitored using the creditworthiness service provided by Sector Treasury Services, which combines credit ratings, credit watches, credit outlook and Credit Default Swap (CDS) spreads. Officers monitor all credit ratings, market data and other intelligence continuously. The maximum amount for investments per counterparty is £25 million for the in-house team and 20% of the managed portfolio with any counterparty for Investec (the current fund manager). The Council also considers country limits and will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings. The country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

The following analysis summarises the Council's prudent provision for what we believe to be our maximum exposure to credit risk, based on experience of default and uncollected debts over previous financial years.

	Amount at 31 March 2011	Historical experience of default	Estimated maximum exposure to default and uncollectability
	£'000	%	£'000
Deposits with banks and financial institutions*	69,526	0.00	0
Customers	7,990	16.58	1,325
Council Tax	9,550	23.40	2,235
Total	**87,066**	**4.09**	**3,559**

* This is made up of the following:	Amount at 31 March 2011
	£'000
Lloyds TSB	20,000
Natwest	16,600
Svenska Handelsbanken	10,000
Stocks	4
Fund managers	22,460
Total	**69,064**
Accrued interest	462
Total including accrued interest	**69,526**

The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers, such that £7.072 million of the £7.990 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than three months	2,963
Three to six months	685
Six months to one year	1,050
More than one year	2,374
	7,072

Of the £10.316 million Council Tax outstanding at 31 March 2011 £5.316 million is over one year old.

Collateral – During the reporting period the council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above as well as through a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The maturity structure of fixed rate borrowing as stated in the strategy:

	Lower Limit %	Upper Limit %	Actual %
Under 12 Months	0	50	5.87
12 months and within 24 months	0	50	5.78
24 months and within 5 years	0	50	5.77
5 years and within 10 years	0	50	4.04
10 years and above	25	100	78.55

All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure account will rise
- borrowings at fixed rates – the fair value of the borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the Income and Expenditure account will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. Council policy is to not exceed a maximum of 40% of borrowings in variable rate loans. The Council currently has no variable interest rate borrowing or investments. However, if it did then the risk of loss is reduced by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and therefore provide some compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, this strategy is then used to monitor against the budget throughout the year. This allows for any adverse changes to be accommodated.

Price Risk

The Council does not generally invest in equity shares or marketable bonds but does have HM Treasury Stock to the value of £3,957. The Council has some exposure to losses arising from movements in the prices of the HM Treasury Stock.

Foreign Exchange Risk

The Council has cash denominated in Euro currency so is exposed to exchange rate risk and potential loss of value on the cash held. The balances held in Euro currency are kept to a minimum.

H SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Accounts

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Council's Main Accounts.

There is a statutory duty, under the provision of the Local Government Finance Act 1988, to maintain a Collection Fund, which is separate from other accounts of the Council. Payments to and from the Collection Fund, which is operated on an accruals basis, are strictly defined in the Act. The Council, in common with Kent Police Authority and Kent Fire and Rescue Service has a precept on the Collection Fund. The Council's precept, excluding Parishes, for 2010/2011 was £97,893,000 (2009/2010 £94,048,000).

In its capacity as billing authority Medway Council acts as an agent for the other major Precepting authorities (Police and Fire) and Central Government as it collects and distributes council tax and business rates on their behalf. The 2009 SORP recognised this agency relationship and required the introduction of the Collection Fund Adjustment Account and the reclassification of debtor and creditor balances.

INCOME AND EXPENDITURE ACCOUNT	Notes	2010/2011 £'000	2009/2010 £'000
Income			
Council Tax Collectable from taxpayers	1	(97,869)	(95,587)
Transfers from General Fund: Council Tax Benefit		(18,820)	(17,811)
Income Collectable from Business ratepayers	2	(69,888)	(70,306)
Total Income for Year		**(186,577)**	**(183,704)**
Expenditure			
Precepts and Demands			
Medway Council		97,893	94,048
Kent Police Authority (KPA)		12,152	11,593
Kent Fire and Rescue Service (KFRS)		5,985	5,688
Parishes		317	279
		116,347	111,608
Business rates			
Payments to National Pool	3	69,598	69,374
Costs of collection allowance		290	288
Provision for bad and doubtful debts *(Council Tax only)*	4	1,126	1,805
Total Expenditure for year		187,361	183,075
(Surplus) / Deficit for the year		784	(629)
(Surplus) / Deficit at the beginning of the year		(761)	(132)
(Surplus) / Deficit at end of year	5	23	(761)

Notes to the Collection Fund Account

1. Council Tax

In 2010/2011 the Council, the Kent Police Authority and the Kent Fire and Rescue Service set equivalent Band D Council Tax levels of £1,119.15, £138.68 and £67.95 respectively resulting in a Council Tax Band D in the Council's area of £1,325.78 excluding Parishes.

The Council Tax Base is calculated by multiplying the number of dwellings in each valuation band by a factor specified by Government, making an allowance for discounts for reduced occupancy, etc and expressing the total as an equivalent number of Band D dwellings.

The Council's Tax Base used for billing purposes is as follows:

Band	Value	Total (net of discounts)	Multiplier	Band D Equivalents
A	Not exceeding £40,000	8,765	6/9	5,843
B	£40,000 to £52,000	32,560	7/9	25,324
C	£52,000 to £65,000	29,370	8/9	26,107
D	£65,000 to £88,000	15,202	9/9	15,202
E	£88,000 to £120,000	7,430	11/9	9,081
F	£120,000 to £160,000	3,186	13/9	4,601
G	£160,000 to £320,000	1,148	15/9	1,913
H	Exceeding £320,000	40	18/9	80
Less adjustment for collection rates and MOD properties				(957)
	Total Band D Equivalent 2010/2011			**87,194**
	Total Band D Equivalent 2009/2010			86,098

The Tax Base multiplied by the Council Tax levied indicates an estimated gross yield of approximately £115,000,000 for Medway Council and the precepting authorities. Specific reductions are made, in accordance with Government regulations, for persons on low incomes (Council Tax benefits approaching £19,000,000) granting up to 100% rebate. This is reimbursed by Central Government. The actual net yield from council tax in 2010/2011 was £97,869,000.

2. Income from Business Rates

In accordance with the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate in the £.

	2010/2011 £'000	2009/2010 £'000
Amount Collectable for the year	87,342	80,679
Less: Transitional and other Reliefs	(17,263)	(10,373)
Income Collectable from Non-Domestic Ratepayers	**70,079**	**70,306**

The total Non-Domestic Rateable Value at 31 March 2011 was £169,284,729 (31 March 2010 £169,274,729) and the Uniform Business Rate 40.7p (41.4p with supplement) (2009/2010 48.1p and 48.5p respectively) in the £.

3. Contribution to Non-Domestic Rate Pool

The income raised from the collection of Non-Domestic Rates (NDR) is paid to the National Pool after making an allowance towards the cost of collection.

4. Provision for Bad and Doubtful Debts

The following provisions have been made against possible non-collection of debt relating to the Collection Fund:

	Council Tax £'000
Balance 1 April 2010	**2,054**
Add: Provisions made during year	1,126
Less amounts written off	(947)
Balance 31 March 2011	**2,233**

5. Surplus/Deficit

The surplus attributable to Medway Council at the end of March 2011 was £500 and deficits due from Kent Police Authority and Kent Fire and Rescue Service were £18,400 and £4,700 respectively. The deficit for the year was £784,000 including a distribution of £430,000 to the precepting authorities.

Housing Revenue Account

The Statutory Housing Revenue Account (Statutory HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. It includes the credit and debit items required to be taken into account in determining the surplus or deficit on the Statutory HRA for the year. The amounts included in the Statutory HRA differ from the amounts in respect of HRA services included in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the Code rather than in accordance with statute and non-statutory proper practices. For this reason the HRA statement has two parts:

1. HRA Income and Expenditure Statement

This statement shows in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on the Provision of Services.

	Notes	2010/2011 £'000		2009/2010 £'000
Expenditure				
Repairs & Maintenance		2,074		2,190
Supervision & Management		3,790		3,689
Rents, Rates, Taxes and Other Charges		154		124
Negative Housing Revenue Account Subsidy/Rent Rebate Limitation Subsidy Payable	7	1,613		1,671
Depreciation and impairment of fixed assets	3	36,309		40,519
Debt Management Costs		51		49
Increase/(Decrease) in Provision for Bad or Doubtful Debts	8	78		46
Total Expenditure		44,068		**48,287**
Income				
Dwelling Rents (Gross)	9	(10,690)		(10,446)
Non-Dwelling Rents (Gross)		(192)		(210)
Charges for Services & Facilities		(995)		(990)
HRA Subsidy Receivable		(5)		0
Contributions Towards Expenditure		(15)		0
Total Income		**(11,897)**		**(11,646)**
Net Cost of Housing Revenue Account Services as included in the whole authority Comprehensive Income and Expenditure Statement			**32,171**	**36,641**
HRA services share of Corporate and Democratic Core			110	107
HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement			(542)	0
Net Cost of Housing Revenue Account Services			**31,739**	**36,748**
(Surplus)/Deficit on revaluation of Property, Plant and Equipment			65	50
Interest payable and similar charges			862	789
Interest and investment income			(65)	(164)
Actuarial (gains)/losses on pension assets/liabilities			91	122
Deficit/(Surplus) for the year on Housing Revenue Account Services			**32,692**	**37,545**

2. Movement on the Housing Revenue Account Statement

This statement shows the how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year-end.

	2010/2011 £'000	2009/2010 £'000
Surplus on HRA as at 1 April	**(5,127)**	**(4,303)**
(Surplus)/Defecit on the HRA Income and Expenditure Account	32,692	37,545
Adjustments between accounting basis and funding basis under regulations	(33,726)	(38,882)
Net increase before transfers to or from reserves	(1,034)	(1,337)
Transfers to or from reserves	5	513
Surplus on HRA at 31 March	**(6,156)**	**(5,127)**

3. Adjustments between accounting basis and funding basis under regulations

	2010/2011 £'000	2009/2010 £'000
Revaluation Losses	(34,070)	(38,808)
Profit/(Loss) on sale of HRA non-current assets	(65)	(55)
Contribution of Disposal Costs	(10)	0
Reversal of Retirement Benefits	233	0
Employers Pension Costs	198	(7)
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	(12)	(12)
	(33,726)	**(38,882)**

4. Transfers to or from reserves

	2010/2011 £'000	2009/2010 £'000
Transfer to/(From) Major Repairs Reserve	0	501
Transfer to/(From) Earmarked Reserves	5	12
	5	513

Notes to the Housing Revenue Account

1. Introduction

The Code requires the HRA to be consolidated in the Income & Expenditure Account but provides for a treatment that ensures that the statutory ring-fence is maintained. The HRA will continue to bear debits and credits for capital according to the Item 8 Determination loans fund charges applicable to the financial year.

2. Dwelling Stock

The Council managed 3,046 dwellings as at 31 March 2011. The movement in stock is analysed as follows:

Stock Type	01-Apr-10	Adjustments	Additions	Disposals	31-Mar-11
Houses	1,317	0		(2)	1,315
Flats	1,273	0		(1)	1,272
Maisonettes	216			(1)	215
Bungalows	244				244
Total	3,050	0	0	(4)	3,046

3. HRA Fixed Assets

In accordance with Government guidelines, dwellings have been valued at their ‘existing use with vacant possession’ based upon beacon values and then reduced to reflect ‘existing use for social housing’. This value is included within the Balance Sheet. The market value at 1 April 2010 is estimated to be £308,371,350. A valuation of the housing stock was carried out as at 1 April 2010 by DTZ, a firm of independent valuers.

	Dwellings £’000	Other Land and Buildings £’000	Total £’000
Balance Sheet Value 1 April 2010	131,193	5,634	136,827
Revaluation	0	0	0
Impairments	(34,150)	0	(34,150)
Restatements	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0
Book Value 1 April 2010	97,043	5,634	102,677
Depreciation	(1,810)	(429)	(2,239)
Additions (see below)	2,597	0	2,597
Disposals	(369)	0	(369)
Balance Sheet Value 31 March 2011	97,462	5,205	102,667

4. Major Repair Reserve

The Major Repairs Reserve is an account that receives the Major Repairs Allowance in order to assist funding major Housing Revenue Account repairs. The Major Repairs Reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account. If the depreciation is of a different value to the Major Repairs Allowance, then a transfer from or to the Housing Revenue Account is required to adjust this amount back to the value of the Major Repairs Allowance. The net sum is then available to finance Housing Revenue Account capital expenditure. The analysis of movement on the Major Repairs Reserve is as follows:

Major Repairs Reserve	**2010/2011 £'000**	**2009/2010 £'000**
Opening Balance 1 April	639	2,840
HRA Depreciation from Capital Financing Account	2,239	1,711
Depreciation Adjusting Transfer from HRA	0	501
Financing of HRA Capital Expenditure	(1,862)	(4,413)
Balance Carried Forward 31 March	1,016	639

5. Analysis of HRA Capital Expenditure and Funding

Funding Source	**2010/2011 £'000**	**2009/2010 £'000**
Operational Assets		
Dwellings	2,558	5,148
Other Land and Buildings	39	0
Non-Operational Assets	0	0
Total	2,597	5,148
Funded by:		
Major Repairs Reserve	1,862	4,413
Borrowing	735	735
Housing Right To Buy Capital Receipts	0	0
Revenue contributions from the HRA	0	0
Total Funding	2,597	5,148

6. Summary of HRA Capital Receipts

	2010/2011 £'000	**2009/2010 £'000**
Receipts from the sale of land	22	4
Receipts from the sale of other property	714	354
Repayment of discount	8	26
Receipts from the sale of houses other than through the right to buy scheme	0	0
Receipts from disposals of houses through the Right To Buy scheme	246	336
Total Capital Receipts	990	720

7. Housing Subsidy

The Housing Revenue Account pays subsidy to the Government. Subsidy is based upon Government Formulae that are used to calculate a number of elements in a notional account. The main elements of Housing Subsidy are detailed in the table below.

Subsidy for 2010/2011 was based on an assumed number of dwellings of 3,053 compared with 3,058 for 2009/2010.

From 1 April 2004, the responsibility for the cost of rent rebates relating to Council Tenants was transferred from the Housing Revenue Account to the General Fund. In order to ensure a neutral effect, the Secretary of State determined under Item 10 of the Local Government and Housing Act 1989 that where authorities had set rents in excess of a specified preset limit, a transfer equal to the loss of rent rebate subsidy should be made from the Housing Revenue Account to the credit of the General Fund. In 2010/2011 this amounted to £216,337 (£153,811 in 2009/2010).

Housing Subsidy	**2010/2011 £'000**	**2009/2010 £'000**
Management Allowance	1,804	1,728
Maintenance Allowance	3,612	3,501
Major Repairs Allowance	2,239	2,212
Admissible Allowance	0	0
Rental Constraint Allowance	0	0
Charges for capital	1,092	999
Total Receivable Allowance	8,747	8,440
Less		
Guideline Rent Income	(10,143)	(9,951)
Interest on Receipts	(1)	(6)
Total Income Allowance to be netted against Receivable Allowance	(10,144)	(9,957)
Total Subsidy (Payable)/Receivable In-Year	**(1,397)**	**(1,517)**
Prior Year Adjustments	5	0
Total Subsidy (Payable)/Receivable Including Prior Year Adjustments	**(1,392)**	**(1,517)**
Rent Rebate Subsidy Limitation	(216)	(154)
Total Housing Subsidy/Rent Rebate Subsidy (Payable)/Receivable	**(1,608)**	**(1,671)**

8. Tenants' Arrears

Tenants' Arrears at 31 March were analysed as follows:

Type of Debt	2010/2011 £'000	2009/2010 £'000
General Stock	362	330
Garages	5	10
Former Tenancies – General Stock	287	268
Former Tenancies - Garages	5	4
Housing Benefit Overpayments – General Stock	57	55
Court Costs – General Stock	39	41
Former Tenancy Arrears of Current Tenants – General	32	34
Rechargeable Repairs	33	31
Total Arrears	820	773
Percentage of Gross Rents (HRA)	6.95%	6.83%

The following provision has been made against possible non-collection of Housing Revenue Account debt:

	2010/2011 £'000	2009/2010 £'000
Balance 1 April	585	597
Additional Provision made during year	77	46
Add Credit write-offs	55	0
Less amounts written off	(93)	(58)
Balance 31 March	624	585

9. Gross Rent Debit

The rent income figure is net of voids. The level of voids in 2010/2011 was on average equal to 0.94% (1.39% in 2009/2010). The level of rebates provided was £7,996,953 (2009/2010 £7,257,627), which amounted to 67.83% of rent and HB related service charges collectable (2009/2010 65.18%).

10. Prior Period Adjustment

An error relating to the interpretation of the Existing Use Value (Social Housing) discount factor as part of the revaluing housing properties as at 1 April 2009 has been identified. This error has meant that the value of council dwellings in 2009/2010 has been overstated by approximately £38 million.

Error on Reports of the Cost of Services for the Financial Year 2009/10

Whilst reviewing the valuation of the council dwellings as at 01 April 2010, it was noticed that the Existing Use Value (Social Housing) discount factor for 2010/11 had been reduced from 45% to 32% (as published by Communities and Local Government in January 2011). Whilst recalculating the valuation for 2010/11, in the light of this alteration, it was noted that the impairment was very large compared with the valuation in the financial statements for 2009/10.

As part of this review it was decided to look at the valuation as at 01 April 2009 to see if there was a reason for the significant variances in value. It was discovered that there had been a misinterpretation of the valuation guidance and instead of discounting the beacon values by 55% in order to use the revised figure of 45% for the South East, the beacon values were in fact discounted by 45%, meaning that the discounted figure was in fact 55% of the beacon value.

The net result was that the value of the council dwellings detailed in the 2009/10 financial statements was overstated by £38.483 million.

In order to correct this error, the Council has restated the prior year information for 2009/10 for the £38 million in each of the reported service lines in the Comprehensive Income and Expenditure Statement. The following are the relevant extracted lines from the Comprehensive Income and Expenditure Statement. The Comprehensive Income and Expenditure Statement with appropriate restatement for 2009/10 can be found on page 29 to these financial statements.

Effect on Comprehensive Income and Expenditure Statement

	2009/10 Net Expenditure Prior to Restatement £'000	Restated 2009/10 Net Expenditure £'000	Amount of Restatement £'000
Local Authority Housing	(2,167)	36,316	38,483

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom requires that an authority present a balance sheet at the beginning of the earliest comparative period when an authority makes a retrospective restatement. However, in this case the prior period error did not impact on the opening Balance Sheet for 2009/10. The error took place at year end 2009/10 and therefore impacted on the reported Property Plant and Equipment balance, which has been reduced by £38.483m. The Capital Adjustment Account within the Unusable Reserves and Statutory Adjustment Accounts was also overstated by the same amount. The following table demonstrates the effects on the following line items in the Balance Sheet for the financial year 2009/10. The restated (for the relevant line items) prior period Balance Sheet is provided with the current year information on page 30 of the financial statements.

Effect on line items in the Balance Sheet 31 March 2010

	2009/10 Prior to Restatement £'000	Restated 2009/10 £'000	Amount of Restatement £'000
Property Plant and Equipment	948,366	909,883	(38,483)
Unusable Reserves and Statutory Adjustment Accounts	(456,983)	(418,500)	38,483

The following restatement was also required for the Movement in Reserves Statement for both the surplus/deficit on provision of services and the adjustments between accounting & funding bases under regulations. The restated (for the relevant line items) prior period Movement in

Reserves Statement is provided with the current year information on page 28 of the financial statements.

Effect on line items in the Movement in Reserves Statement 31 March 2010

	Prior to Restatement 31 March 2010 £'000	Restated 31 March 2010 £'000	Amount of Restatement £'000
Balance at the end of the previous reporting period 31 March 2009	53,054	53,054	0
Surplus/(Deficit) on provision of services	(28,376)	(66,859)	(38,483)
Adjustments between accounting & funding bases under regulations	39,118	77,601	38,483
Transfers to/(from) Earmarked Reserves	4,104	4,104	0
Increase/(Decrease) in Year	14,845	14,845	0
Balance at 31 March 2010	67,899	67,899	0

I GLOSSARY OF TERMS

ACCRUAL

A sum included in the final accounts attributable to the year but for which payment has yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

ASSET

An item having value measurable in monetary terms. Assets can be defined as current or non-current. A current asset can be readily converted into cash (for example stocks or a short term debtor). A non-current asset has a value for more than one year (for example a building or a long term investment).

AUDIT OF ACCOUNTS

An independent examination of the Council's financial affairs.

BUDGET

The spending plans of the Council over a specific period of time – generally the financial year, 1 April to 31 March.

CAPITAL EXPENDITURE

Expenditure to acquire or enhance non-current assets that will be used to provide services beyond the current financial year.

CAPITAL FINANCING

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure, including borrowing, leasing using capital receipts, grants or contributions from third parties, or directly from revenue budgets.

The capital charge shows the real benefit that each service has gained in the year from the use of fixed assets. The capital financing charge debited to services is effectively the opportunity cost to the authority of services having tied up the authority's resources in particular non-current assets.

CAPITAL PROGRAMME

The capital schemes the council intends to carry out over a specified period of time.

CAPITAL RECEIPT

The proceeds from the disposal of land or other non-current assets.

CENTRAL SERVICES

BVACOP introduced this Service Expenditure Analysis category which incorporates the following divisions and sub-divisions of service:

Corporate and Democratic Core incorporating

> Democratic Representation and Management which includes all aspects of members' activities including civic ceremonials, members' allowances and all officer support to this function and;
>
> Corporate management which includes all the functions of the Chief Executive, external audit, treasury management and 'corporate' bank charges.
>
> Unapportionable Central Overheads which is substantially the cost of past service contribution to the pension fund, charges for added years and early retirements. The former was previously allocated to services.

COLLECTION FUND

A separate fund for the collection and distribution of amounts due in respect of council tax and National Non-Domestic Rates (NNDR).

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, or that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets include parks and historical buildings.

CONSISTENCY

The concept that ensures the accounting treatment of like items within an accounting period and from one period to the next one is the same.

CREDIT APPROVAL

Credit approvals give the Council permission to borrow to finance new capital expenditure.

CREDITOR

Amounts owed by the Council for works done, good received or services rendered before the end of the accounting period but for which payments had not been made by the end of that period.

DEBTOR

Amounts due to the Council for works done, goods received or services rendered before the end of accounting period but for which payments had not been received by the end of that period.

DEPRECIATION

The loss in value of an asset, in the accounting period, due to age, wear and tear, deterioration or obsolescence.

FINANCE LEASE

A lease which transfers substantially all the risks and rewards of ownership of a fixed asset to the Council.

GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure to support the cost of the provision of local Councils services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Council (Revenue Support Grant).

HOUSING ADVANCES

Loans made by the Council to individuals or Housing Associations towards the cost of acquiring, constructing or improving dwellings.

HOUSING BENEFITS

A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central government.

HOUSING REVENUE ACCOUNT

A separate account which includes all the expenditure and income arising from the provision of council housing by the Council.

INCOME

Amounts which the Council receives or expects to receive from any source, including rents, fees, charges, sales and grants.

INFRASTRUCTURE ASSETS

Assets belonging to the Council, such as highways and footways, which do not necessarily have a resale value.

LIABILITY

An amount owed by the Council which will be paid some time in the future.

LOBOS

A form of loan offered by the market that provides discounted rates of interest in the earlier years of the term of the loan. These are more formally known as Lender Options Borrower Options.

MINIMUM REVENUE PROVISION (MRP)

The MRP is a statutory amount relating to the principal element of loans outstanding, which is a specific percentage of the Council's credit ceiling at the end of the previous year. This percentage is 2% for the Housing Revenue Account and 4% for other services.

NON-DOMESTIC RATE

The Non-Domestic Rate (Business Rate) is a standard rate in the pound set by the Government on the assessed rateable value of business properties.

NON-OPERATIONAL ASSETS

Fixed assets held by the Council, but not directly occupied or used in the delivery of services. Examples are investment properties, or assets which are surplus to requirements, pending sale or redevelopment.

OPERATING LEASE

A lease where the ownership of an asset remains with the lessor, not the Council.

OPERATIONAL ASSETS

Fixed assets held by the Council and directly occupied or used in the delivery of its services.

PRECEPT

The levy made by precepting authorities on billing authorities, for example the Kent Police Authority levies a precept on Medway Council.

PROVISION

An amount set aside for liabilities or losses which are certain to arise, but which due to their nature cannot be quantified with certainty.

PROVISION FOR CREDIT LIABILITIES

This represents the sum set aside for the repayment of debt.

PUBLIC WORKS LOAN BOARD (PWLB)

A central government agency which provides loans for one year and above to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

RATEABLE VALUE

The annual assumed rental value of a property which is used for NDR purposes.

RELATED PARTY TRANSACTIONS

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged. The principal issue is the degree of control or influence by one party over the other. For transactions not disclosed elsewhere in these accounts, a related party with the Council is either a member or senior officer of the Council.

RESERVES

Surpluses and deficits which have been accumulated over past years. Reserves of a revenue nature are available and can be spend or earmarked at the discretion of the Council. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Capital expenditure which is of benefit beyond the current accounting period, but which does not result in a tangible non-current fixed asset to the Council. An example of a deferred charge would be capital expenditure on improvement grants.

REVENUE SUPPORT GRANT

A grant paid by Central Government to authorities, contributing towards the cost of services.

STOCKS

Comprises the following categories: goods and other assets purchased for resale; consumable stores; long term contract balances and finished good.

TEMPORARY LOAN

Money borrowed for a period of less than one year.

TOTAL COST

The total cost of an activity or service incorporates all income and expenditure relating to that activity/service including employee costs, premises, transport, supplies and services, capital charges and an appropriate share of all overheads, less income from fees and charges and specific grants.

The cost of that activity or service will then be consistently applied in reporting performance indicators, Best Value Performance Plans, statistics and returns and used as a benchmark against Capital expenditure which is of benefit beyond the current accounting period, but which does not result in a tangible fixed asset to the Council. An example of a deferred charge would be capital expenditure on improvement grants.

J IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Statement of Accounts for 2010/2011 is the first to be prepared on an IFRS basis. Adoption of the IFRS based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of accounts for 2009/2010.

An explanation of the differences between the amounts presented in the 2009/2010 financial statements and the equivalent amounts presented in the 2010/2011 financial statements is set out in the following tables and accompanying notes.

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (1 April 2009)

	Previous GAAP	Effect of Transition to IFRS				IFRS
		Absences	Leases	Grants	Other	
	£000s	£000s	£000s	£000s	£000s	£000s
Property Plant and Equipment	1,005,452		1,021		(35,739)	970,734
Investment Property	72,566				(66,712)	5,854
Assets held for Sale	0					0
Long Term Investments	20,004					20,004
Long Term Debtors	882					882
Long Term Assets	**1,098,904**	**0**	**1,021**	**0**	**(102,451)**	**997,474**
Short Term Investments	114,747				(2,407)	112,340
Assets Held for Sale	0				2,668	2,668
Inventories	144					144
Short Term Debtors	51,211					51,211
Cash and Cash Equivalents	17,736				(14,059)	3,677
Current Assets	**183,838**	**0**	**0**	**0**	**(13,799)**	**170,040**
Bank Overdraft	(16,466)				16,466	0
Short Term Borrowing	(52,351)					(52,351)
Short Term Creditors	(55,457)	(3,112)			2,838	(55,731)
Provisions (<1 Year)	0					0
Current Liabilities	**(124,274)**	**(3,112)**	**0**	**0**	**19,304**	**(108,082)**
Capital Grants etc Unapplied	(20,276)			20,276		0
Government Grant Deferred	(84,867)			84,867		0
Capital Contributions Deferred	(9,970)			9,970		0
Long Term Creditors	(52,006)					(52,006)
Provisions (>1 Year)	(1,735)					(1,735)
Long Term Borrowing	(200,260)					(200,260)
Net Pensions Liability	(132,100)					(132,100)
Embedded Lease Liability	0		(1,021)			(1,021)
Capital Grants Receipts in Advance	0			(8,143)		(8,143)
Long Term Liabilities	**(501,214)**	**0**	**(1,021)**	**106,970**	**0**	(395,265)
Net Assets	**657,254**	**(3,112)**	**0**	**106,970**	**(96,945)**	**664,167**
Capital Grants etc Unapplied	0			12,132		12,132
Other Usable Reserves	38,084				2,838	40,922
Usable Reserves	**38,084**	**0**	**0**	**12,132**	**2,838**	**53,054**
Capital Adjustment Account*	682,745			94,838	(92,875)	684,708
Accumulated Absences Account	(657)	(3,112)				(3,769)
Other Unusable Reserves*	(62,918)				(6,909)	(69,827)
Unusable Reserves	**619,170**	**(3,112)**	**0**	**94,838**	**(99,784)**	**611,113**
Total Reserves	**657,254**	**(3,112)**	**0**	**106,970**	**(96,945)**	**664,167**

*Will not agree to opening balances in Unusable Reserves (Note 16) as transactions actioned in 2010/2011.

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (31 March 2010)

	Previous GAAP	Effect of Transition to IFRS				IFRS
		Absences	Leases	Grants	Other	
	£000s	£000s	£000s	£000s	£000s	£000s
Property Plant and Equipment	1,012,128		896		(103,141)	909,883
Investment Property	70,872				(64,956)	5,916
Assets held for Sale	0					0
Long Term Investments	10,004					10,004
Long Term Debtors	788					788
Long Term Assets	**1,093,792**	**0**	**896**	**0**	**(168,097)**	**926,591**
Short Term Investments	79,056				(56,819)	22,237
Assets Held for Sale	0				3,748	3,748
Inventories	152					152
Short Term Debtors	61,651				(72)	61,579
Cash and Cash Equivalents	23,658				33,099	56,757
Current Assets	**164,517**	**0**	**0**	**0**	**(20,044)**	**144,473**
Bank Overdraft	(23,719)				23,719	0
Short Term Borrowing	(26,895)					(26,895)
Short Term Creditors	(58,768)	(3,781)			4,602	(57,947)
Provisions (<1 Year)	0					0
Current Liabilities	**(109,382)**	**(3,781)**	**0**	**0**	**28,321**	**(84,842)**
Capital Grants etc Unapplied	(32,737)			32,737		0
Government Grant Deferred	(96,286)			96,286		0
Capital Contributions Deferred	(9,476)			9,476		0
Long Term Creditors	(49,709)					(49,709)
Provisions (>1 Year)	(2,941)					(2,941)
Long Term Borrowing	(175,139)					(175,139)
Net Pensions Liability	(265,235)					(265,235)
Embedded Lease Liability	0		(1,087)			(1,087)
Capital Grants Receipts in Advance	0			(5,901)		(5,901)
Long Term Liabilities	**(631,523)**	**0**	**(1,087)**	**132,598**	**0**	**(500,012)**
Net Assets	**517,404**	**(3,781)**	**(191)**	**132,598**	**(159,820)**	**486,210**
Capital Grants etc Unapplied	0			26,836		26,836
Other Usable Reserves	36,534				4,530	41,064
Usable Reserves	**36,534**	**0**	**0**	**26,836**	**4,530**	**67,900**
Capital Adjustment Account	629,487		(191)	105,762	(139,152)	595,906
Accumulated Absences Account	(687)	(3,781)				(4,468)
Other Unusable Reserves	(147,930)				(25,198)	(173,128)
Unusable Reserves	**480,870**	**(3,781)**	**(191)**	**105,762**	**(164,350)**	**418,310**
Total Reserves	**517,404**	**(3,781)**	**(191)**	**132,598**	**(159,820)**	**486,210**

Reconciliation to total comprehensive income and expenditure under IFRS for the year ended 31 March 2010

	Previous GAAP	Net Expenditure Effect of Transition to IFRS Absences	Leases	Grants	Other	IFRS
	£000s	£000s	£000s	£000s	£000s	£000s
Gross Expenditure, gross income and net expenditure of continuing operations						
Central services to the public	2,086				4	2,090
Court services	458				(458)	0
Cultural, environmental, regulatory and planning services	46,520			1,947	(2,437)	46,030
Education and children's services	84,702	669		1,124	20,190	106,685
Highways and transport services	22,080		(40)	2,268	23	24,331
Local authority housing (HRA)	(1,263)				37,579	36,316
Other housing services	8,131			0	247	8,378
Adult social care	88,040				(25,434)	62,606
Corporate and democratic core	11,279			(2,051)	3,923	13,151
Non-distributed costs	674				(762)	(88)
Cost of Services	**262,707**	**669**	**(40)**	**3,288**	**32,875**	**299,499**
Other Operating Income and Expenditure	**(309)**				1,013	**704**
Financing and Investment Income and Expenditure	**14,754**		40		2,492	**17,286**
Taxation and Non-Specific Grant Income	**(191,476)**			**(59,153)**		**(250,629)**
(Surplus)/Deficit on the Provision of Services	**85,676**	**669**	**0**	**(55,865)**	**36,380**	**66,860**
(Surplus)/Deficit on Revaluation of Non-Current Assets	**(51,708)**				30,609	(21,099)
Amortisation of Grant Non-Current Assets	**(26,655)**			26,655		**0**
Actuarial (Gains)/Losses on Pension Assets and Liabilities	**132,537**					**132,537**
Movement in Accumulated Absences Reserve	**0**				699	**699**
Other Comprehensive Income and Expenditure	**54,174**	**0**	**0**	**26,655**	**31,308**	**112,137**
Total Comprehensive Income and Expenditure	**139,850**	**669**	**0**	**(29,210)**	**67,688**	**178,997**

Notes:

1 Short Term accumulated Compensated Absences refers to the benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit is holiday pay.
Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

2 Under the Code, local authorities are required to record the value of property, plant and equipment used by third parties in the provision of council services if those assets are exclusively employed within that authority. The assets are recorded in the balance sheet at their written down value. The operating costs of the service are included within the Cost of Services in the Comprehensive Income and Expenditure Statement although the interest element of the notional lease charge is removed and shown within Financing and Investment Income and Expenditure.

3 Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable unless there are conditions attached to their use. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets that they were used to fund.

As a consequence of the Code, the balance on the Government Grants and Contributions Deferred Accounts as at 31 March 2009 have been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet. The government grants and contributions previously recognised as income have been removed from the Comprehensive Income and Expenditure Statement. Where conditions apply to the use of grants and contributions, predominantly Section 106 agreements etc., the balance of those amounts not yet applied to capital expenditure has been transferred to the Capital Grants and Contributions Unapplied Account. As these grants and contributions applied, they will be recognised through the relevant service line of the Comprehensive Income and Expenditure Statement.

4 Other restatements predominantly relate to the removal of foundation and other schools not directly controlled by the Council. This has resulted in a reduction of some £97 million in the value of Property Plant and Equipment recorded in the balance sheet as at 1 April 2009 and a corresponding reduction in the Capital Adjustment Account and Revaluation Reserve. The latter being contained within Other Unusable Reserves. In addition, the reclassification of a number of non-current assets from Investment Property to Property, Plant and Equipment has necessitated an adjustment between the Capital Adjustment Account and the Revaluation Reserve.

Bank balances and overdraft are now classified as cash and cash equivalents which comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. An investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition.

Levies, amounting to £921,000 in 2009/2010 formerly included within Cost of Service are now reclassified as Other Operating Expenditure in the Comprehensive Income and Expenditure Statement.

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